VALUATION REPORT ON CAREFIRST, INC.

Prepared for

Government of the District of Columbia

Office of the Corporation Counsel

Department of Insurance and Securities Regulation

January 23, 2003

CAIN BROTHERS

SOLUTIONS THROUGH FINANCIAL INNOVATION

Disclaimer

THIS VALUATION REPORT SHOULD BE READ IN ITS ENTIRETY, INCLUDING ALL APPENDICES HERETO. VALUATION OF A COMPANY SUCH AS CAREFIRST, INC. ("CareFirst") IS A COMPLEX PROCESS, AND INVOLVES SUBJECTIVE JUDGMENT OF THE VALUATION CONSULTANT. IN CONDUCTING OUR EVALUATION, CAIN BROTHERS HAS NOT RELIED UPON ANY ONE VALUATION TECHNIQUE, AND HAS NOT GIVEN SPECIFIC WEIGHT TO ANY ONE VALUATION TECHNIQUE. IN SELECTING COMPARABLE PUBLIC COMPANIES AND COMPARABLE SALE TRANSACTIONS, WE HAVE NOT WEIGHTED EACH COMPARABLE EQUALLY, AND HAVE MADE ADJUSTMENTS NECESSARY IN OUR VIEW TO MAKE THE SELECTED COMPANIES OR TRANSACTIONS MORE COMPARABLE TO CAREFIRST. SELECTING ANY PORTION OF THIS REPORT WILL LIKELY RESULT IN CONCLUSIONS NOT WARRANTED BY CONSIDERATION OF THE VALUATION REPORT AS A WHOLE.

Financial projections for the period 2003 – 2006 were provided by CareFirst on a high level basis, without underlying assumptions as to, among other things, enrollment growth, enrollment by product, medical cost trends, administrative costs by category, or other assumptions other than total revenue growth, total medical costs, total administrative costs, depreciation, capital expenditures, and net income. Other than the 2003 budget prepared by CareFirst, which was used as the basis for the calendar year 2003 portion of the financial projections, CareFirst projections were only prepared on a consolidated CareFirst basis, and not by affiliate. Therefore, Cain Brothers has produced detailed financial projections for CareFirst, Inc. and by affiliate, based upon assumptions we believe to be reasonable. CareFirst has reviewed the projection assumptions for reasonableness only. All financial projections involve subjective judgment, and no assurance can be given that the financial projections will be attained. Because the detailed financial projections (and the discounted cash flow analysis which is based upon these projections) were not prepared by CareFirst, further risks inherent in relying upon the results must be considered, and neither Cain Brothers nor CareFirst makes any representation regarding the financial projections.

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Overview of the Engagement

Cain Brothers is serving as financial advisor to the Department of Insurance and Securities Regulation ("DISR") and the Office of the Corporation Counsel of the District of Columbia ("OCC") to assist them in carrying out their duties and responsibilities pursuant to the Hospital and Medical Services Corporation Regulatory Act of 1996, effective April 9, 1997 (D.C. Law 11-245; D.C. Official Code § 31-3501 et seq.) and the Healthcare Entity Conversion Act of 1997, effective October 23, 1997 (D.C. Law 12-32; D.C. Official Code § 44-601 et seq.), with respect to the proposed conversion of Group Hospitalization and Medical Services, Inc. ("GHMSI") to for-profit status and the proposed acquisition of GHMSI by WellPoint Health Networks, Inc. ("WellPoint").

WellPoint has proposed to acquire all of the outstanding shares of common stock of CareFirst, Inc. ("CareFirst") upon the conversion of CareFirst to a for-profit company. CareFirst serves as the BlueCross BlueShield plan for the District of Columbia, Maryland, and Delaware. CareFirst is the holding company, with separately incorporated affiliates domiciled in each of these jurisdictions. The District of Columbia affiliate is GHMSI. The Maryland affiliate is CareFirst of Maryland, Inc. ("CFMI"), and the Delaware affiliate is BlueCross BlueShield of Delaware ("BCBSD").

The November 20, 2001, WellPoint proposal, which has been submitted to the three jurisdictions with regulatory oversight for review, provided that CareFirst and each of the three affiliates will convert from nonprofit to for-profit status and, simultaneously, the combined entity will be sold to WellPoint for $1.3 billion, consisting of at least $450 million in cash and the balance in shares of WellPoint common stock. WellPoint and CareFirst announced on January 21, 2003, that they have agreed to submit to their respective Boards of Directors an Amended Merger Agreement, which, among other things, increases consideration payable from $1.3 billion to $1.37 billion.

DISR and OCC have asked Cain Brothers to evaluate the adequacy of the total WellPoint offer from a financial point of view, as well as to establish a range of value for GHMSI. Cain Brothers & Company, LLC ("Cain Brothers"), a corporation in the business of providing investment banking services to the health care industry, in serving as advisor to DISR and OCC, was asked to undertake the following tasks:

- Review the process conducted by CareFirst and GHMSI, including proposals solicited, offers received, criteria used to select preferred offer(s) and the ultimate proposal.
- Review recent historical and budget enrollment data and financial reports for each affiliate individually, and for CareFirst as a whole.
- Review key underlying statistics and financial data for each affiliate, including lines of business, premium and medical expense trends, utilization statistics, and operating benchmarks.
- Undertake a basic review of balance sheet accruals for each affiliate.
- Review the 2003 CareFirst, Inc. and affiliate budgets prepared by CareFirst, and financial projections for each affiliate, if projections are available.
- Review area competition and market shares.
- Analyze comparable public company data to determine implied valuation metrics.
- Analyze comparable recent private sale transactions to determine implied valuation metrics.
- Perform a discounted cash flow analysis for CareFirst, Inc. as a whole and by affiliate.
- Consider the effect of synergies and economies projected by WellPoint on CareFirst, Inc. and each affiliate's enterprise value.
- Consider the impact of individual balance sheet items on CareFirst, Inc. and each affiliate's enterprise value.
- Provide a range of enterprise values for CareFirst, Inc. and each affiliate.

This valuation report provides Cain Brothers' opinion as to the valuation of CareFirst and of each of the three CareFirst affiliates as of this date. This report is furnished solely for the benefit of DISR and OCC to assist them in carrying out their duties and responsibilities as described above. It is not intended to be used and may not be relied upon by any other party whatsoever without the express written consent of Cain Brothers.

The valuation herein is based upon market, economic, and other circumstances existing and disclosed to us as of the date hereof. In preparing this valuation report, we have assumed that in the course of obtaining any necessary approvals or consents for the transaction, no restrictions will be imposed that will have a materially adverse impact on the contemplated benefits of the transaction.

In preparing this valuation report, we have relied, without independent verification, on the accuracy and completeness of all financial and other information reviewed by us that was publicly available or furnished to us by or on behalf of CareFirst, or by other parties. We have assumed that the 2003 budget (utilized in creating the 2003 forecast data) was reasonably prepared based on currently available estimates and good faith judgment of the management of CareFirst, and applied consistently with the economic principles and presentation of the corresponding historical financial statements. We have not made, requested, or received any independent appraisal of the assets or liabilities of CareFirst.

Background on CareFirst and Comments on the Transaction Process

Background

CareFirst, Inc. and affiliates provide a comprehensive array of health insurance and managed care products and services, primarily through indemnity health insurance, health benefits administration, and health maintenance organizations ("HMOs"). These products and services are provided to individuals, businesses, and governmental agencies primarily in the Washington, D.C. metropolitan area, and the states of Maryland and Delaware. CareFirst, Inc. incorporated on January 16, 1998, to become the not-for-profit parent of CFMI and GHMSI. These affiliates do business as CareFirst BlueCross BlueShield. On March 22, 2000, CareFirst entered into an affiliation with BlueCross BlueShield of Delaware, Inc. CareFirst, Inc. is the sole member of:

- GHMSI, d/b/a BlueCross BlueShield of the National Capital Area, the BlueCross BlueShield affiliate for the District of Columbia, Montgomery County and Prince George's County in Maryland, and the area of northern Virginia lying east of VA Route 123 (and including the incorporated cities of Vienna and Fairfax, including those portions of those incorporated cities lying west of VA Route 123). As of September 30, 2002, GHMSI served 1,266,100 members in a combination of risk and non-risk products. For the twelve months ended September 30, 2002, net revenue was $2,139.1 million, income before taxes was $76.5 million, and net income was $63.7 million, all on a premium plus fees basis, as detailed herein.
- CFMI, the BlueCross BlueShield affiliate for the state of Maryland other than Montgomery County and Prince George's County. As of September 30, 2002, CFMI served 1,607,000 members in a combination of risk and non-risk products. For the twelve months ended September 30, 2002, net revenue was $1,783.6 million, income before taxes was $17.4 million, and net income was $21.7 million, all on a premium plus fees basis, as detailed herein (CFMI Net Income includes a $10.1 million gain from discontinued operations).
- BCBSD, the BlueCross BlueShield affiliate for the state of Delaware. As of September 30, 2002, BCBSD served 322,800 members in a combination of risk and non-risk products. For the twelve months ended September 30, 2002, net revenue was $270.5 million, income before taxes was $23.0 million, and net income was $16.7 million, all on a premium plus fees basis, as detailed herein.

Further, effective October 1, 2002, CareFirst BlueChoice ("CFBC"), a Washington, D.C. domiciled HMO, was restructured such that from that date forward it is 60% owned by CFMI and 40% owned by GHMSI. Prior to October 1, 2002, CFBC had enrolled groups from counties in Maryland outside of the GHMSI service area. FreeState BlueChoice, a Maryland domiciled HMO, effectively ceased enrollment as of December 2002, and CareFirst is using CFBC as its HMO product in all of its service areas outside of Delaware.

Comments on the Transaction Process

(1) We are not providing an opinion herein as to the benefits of a sale or merger of CareFirst compared to any other strategic alternative (i.e.- status quo, strategic affiliation with another non-profit BlueCross plan, raising debt capital, conversion and raising public capital). Our review of Board of Directors minutes, Strategic Planning Committee minutes, and related presentations from Accenture and Credit Suisse First Boston ("CSFB"), however, indicates that all of these alternatives were considered.

(2) Once CareFirst embarked upon the formal sale and conversion process early in 2001, a number of selection criteria were utilized to evaluate proposals. In the February 20, 2001 letters from CSFB to WellPoint Health Networks and to Trigon Healthcare ("Trigon"), WellPoint and Trigon were asked to provide definitive proposals addressing, among other things: price to be offered, location of corporate headquarters, corporate name and branding, composition of the

Board, continuing role of existing CareFirst subsidiary directors, location of employees and facilities by state, commitment to CareFirst employees, continued relationship with CareFirst providers, and continued service of existing CareFirst market segments. Inclusion of the "non-price" criteria, as a general rule, work against obtaining the highest purchase price, in exchange for other forms of value.

Reservation Eleven Associates v. District of Columbia, 420 F.2d 153, 155 (D.C. Cir. 1969) defines fair market value as "the price which a willing seller, who is not obliged to sell, would be willing to accept and the price which a willing buyer, who is not obliged to buy, would be willing to pay for the property. This * * * assumes that the buyer is knowledgeable and that the seller is knowledgeable. * * * of all of the present or potential elements of value involved * * *. Fair market value * * * is based upon the probabilities as they appear to the willing buyer and the willing seller." Internal Revenue Service Revenue Ruling 59-60 defines *fair market value* as "… the price at which [a] property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts. Court decisions frequently state in addition that the hypothetical buyer and seller are assumed to be able, as well as willing, to trade and to be well informed about the property and concerning the market for such property…". We believe that a standard of fair market value, as described above, is the appropriate standard to follow. The fair market value standard that is being used is not necessarily the same as the highest possible purchase price that might be obtained in a full auction without consideration of "non-price" criteria.

(3) Once the decision was made to convert to for-profit status and sell or merge CareFirst into another entity, the sale process was limited to other BlueCross BlueShield companies – specifically Highmark, Inc., Trigon Healthcare, Inc., and WellPoint Health Networks. Although it is not clear that all appropriate BlueCross BlueShield companies were allowed to participate in the sale process, we do believe that limiting the universe of potential buyers/partners to BlueCross BlueShield companies was appropriate for the following reasons:

- The BlueCross BlueShield brand is one of the most highly recognized brands in the healthcare market. The public BlueCross BlueShield companies trade at a premium to the non-BlueCross managed care companies. Studies have indicated the positive value of the brand.
- The BlueCross BlueShield Association ("BCBSA") operates a master contract for the Federal Employee Program ("FEP"), through the Office of Personnel Management. CareFirst enrollment, and particularly GHMSI enrollment, under this program is substantial, and would be at risk if CareFirst were no longer a BCBSA affiliated plan. Further, GHMSI performs certain administrative functions as the national operations center for the FEP under a cost reimbursement contract with the BCBSA. This contract would be lost if GHMSI were no longer a BlueCross plan. The FEP reimbursed GHMSI for costs incurred in connection with this agreement totaling over $48 million in 2001, and its covers significant overhead each year.
- CareFirst has the dominant presence in the municipal business (largely non-risk contracts) in most of its service area. This business would also be at risk if CareFirst were no longer a BCBSA affiliated plan.
- The BCBSA regulates the terms and conditions for its licensees. We believe it is highly unlikely that a non-BlueCross BlueShield company could acquire CareFirst and maintain the BlueCross BlueShield licenses. Because the BCBSA ensures that each geographic area within the United States is covered by a BCBS plan, we assume that the BCBSA would appoint another company as the BlueCross BlueShield licensee for CareFirst's geographic area. This would bring a strong competitor to the service area, which would participate in the BCBSA FEP program and operate the FEP data center. The market value of CareFirst would be significantly negatively impacted if this were to occur.

Representatives of Trigon Healthcare (now Anthem Southeast), in depositions before the Maryland Insurance Administration on August 19, 2002, as well as information provided by Anthem Southeast, indicate that Trigon was not encouraged to increase their purchase price offer; but were instead guided to improve "non-price" components of their proposal. CareFirst representatives (in depositions before the Maryland Insurance Administration on September 6, 2002 and September 19, 2002) disputed this claim. Further, correspondence between Anthem Inc. and CareFirst (and its advisors) indicates Anthem's clear desire to have participated in the sale process. For various reasons, including the timeframe involved in Anthem's process of converting to a public entity, CareFirst determined not to include Anthem in the sale process. There is reason to believe that inclusion of Anthem could have lead to a more competitive process and a higher transaction price. Based on the above, related to both Anthem and Trigon, it is difficult to conclude with certainty that a fully competitive auction took place. As a consequence we are not able to accord to the auction process **by itself** the weight it might otherwise obtain in the valuation process.

(4) The WellPoint proposal (see Section 3), as detailed in the Agreement and Plan of Merger, specified payment of at least $450 million of the purchase price in cash, and the balance in shares of WellPoint stock (subject to certain conditions). On April 25, 2002, the Governor of the State of Maryland signed a bill requiring that Maryland's share of the $1.3 billion purchase price be paid in cash (and not a combination of cash and stock). On January 21, 2003, WellPoint and CareFirst announced that they have agreed to present to their respective Boards of Directors for approval on or before January 24, 2003, an Amended and Restated Agreement and Plan of Merger. The proposed form of the Amended Merger Agreement, among other things, amends the form of consideration paid. These changes are described in Section 3 – "Summary of the Financial Terms of the Transaction".

Summary of the Financial Terms of the Transaction

On November 20, 2001, WellPoint Health Networks, Inc. entered into a definitive agreement to acquire CareFirst, Inc. Under the terms of the agreement a wholly owned subsidiary of WellPoint will merge with and into CareFirst. As a result of the merger, the outstanding shares of common stock of CareFirst would be converted into the right to receive an aggregate purchase price of $1.3 billion.

WellPoint would pay at least $450 million of the purchase price in cash, and the balance in shares of WellPoint common stock based on its average closing price in the twenty (20) trading day period ending the fifth trading day prior to the closing. In the event that the average closing price is below $35 ($70 in the Agreement and Plan of Merger – adjusted to $35 per share based on WellPoint's two for one stock split on March 18, 2002), WellPoint may issue a five-year subordinated note in lieu of a portion of the purchase price to be paid in its common stock. The subordinated note would rank pari passu with WellPoint's zero coupon convertible subordinated debentures due in 2019. On April 25, 2002, the Governor of Maryland signed a bill requiring that Maryland's share of the $1.3 billion be paid in cash and not a combination of cash and WellPoint stock.

Other significant financial terms of the Agreement and Plan of Merger include:

- The obligation of WellPoint to effect the merger is subject to the requirement that there not have occurred an event that has a CareFirst Material Adverse Effect. CareFirst Material Adverse Effect is defined as "a material adverse effect on the business, assets, liabilities, financial condition or results of operations of the CareFirst companies taken as a whole…"
- Either CareFirst or WellPoint may terminate the merger if the Board of Directors of CareFirst authorizes CareFirst to execute a binding written agreement with respect to a transaction that constitutes a Superior Proposal. WellPoint shall have the right to provide a written offer that the Board of Directors of CareFirst determines in good faith to be at least as favorable as the Superior Proposal. (CareFirst shall not directly or indirectly solicit any such proposal).
- In the case of a termination of the merger agreement by CareFirst pursuant to their accepting a Superior Proposal, CareFirst will be obliged to pay WellPoint a termination fee of $37.5 million.

On January 21, 2003, WellPoint and CareFirst announced that they have agreed to present to their respective Boards of Directors for approval on or before January 24, 2003, an Amended and Restated Agreement and Plan of Merger. The proposed form of the Amended Merger Agreement is being filed with the insurance regulators as an amendment to the pending Form A applications. According to the WellPoint and CareFirst press releases, principal changes from the November 20, 2001 agreement include:

- Transaction consideration would be paid fully in cash (up to $850 million of which could be raised in a WellPoint financing transaction) unless stock or other non-cash consideration is allowed under applicable law.
- The closing of the transaction would be conditioned on certain executive compensation plans and agreements with CareFirst executives being revised as provided in the Amended Merger Agreement. The revisions provide that at the closing of the transaction CareFirst's Merger Incentive Plan will be rescinded and that the employment agreements between CareFirst and eight senior executives will be terminated. Those executives' participation in CareFirst's Long-Term Incentive Plan and its Supplemental Executive Retirement Plan would also be terminated. The executives would enter into two-year retention agreements with WellPoint at the closing of the transaction. The executive payments would not be made by any

licensed insurance entity in Maryland, the District of Columbia, or Delaware, but would instead be borne by WellPoint itself. The specifics of these revisions are included as part of the Amended Merger Agreement.

- For a 60-day period following the signing date of the Amended Merger Agreement, WellPoint would waive any termination or breakup fee payable by CareFirst (except for reimbursement of certain expenses) if CareFirst accepts a Superior Proposal from another party. WellPoint would retain its right to match any other proposal.
- As a result of these changes, the consideration payable would be increased from $1.3 billion to $1.37 billion.

Scope of Work

In conducting our due diligence, Cain Brothers reviewed numerous documents, including but not limited to:

- Audited financial statements for CareFirst, Inc., Group Hospitalization and Medical Services, Inc., CareFirst of Maryland, Inc., and BlueCross BlueShield of Delaware, Inc. for the years ended 12/31/1999, 12/31/2000, and 12/31/2001.
- Unaudited interim financial statements for CareFirst, Inc., GHMSI, CFMI, and BCBSD for the nine month period ended 9/30/2002, and the ten month period ended 10/31/02.
- CareFirst BlueCross BlueShield Annual Reports for calendar years 2001 and 2000.
- CareFirst, Inc. forecast for the year ended 12/31/2002, and unaudited balance sheet (but not statements of operations) for the year ended 12/31/02.
- CareFirst budgets by affiliate (GHMSI, CFMI, and BCBSD) and by product for calendar year 2003.
- CareFirst prepared financial projections for the years 2003 – 2006, which were prepared on a high level basis, as described in the Disclaimer.
- Statutory filings submitted for the primary regulated entities for the periods 12/31/2001, 3/31/2002, and 6/30/2002; and the CareFirst reconciliation of statutory capital to GAAP capital for GHMSI, CFMI, and BDBSD entities.
- CareFirst prepared reports covering enrollment by product and affiliate, and underwriting margins by product and affiliate for the years 1999 – 2001 and for the nine months ended September 30, 2002.
- Agreement and Plan of Merger, dated November 20, 2001, by and among WellPoint Health Networks, Inc. and CareFirst, Inc.
- Transcripts from the public hearings with the Department of Insurance and Securities Regulation held on May 22, 2002 and May 28, 2002.
- Prefiled written testimony from the CareFirst public hearings with the Maryland Insurance Administration, dated March 6, 2002.
- Transcripts from the public hearing with the Maryland Insurance Administration on March 11, 13, and 14, 2002, and April 29 and 30, 2002.
- Depositions before the Maryland Insurance Administration of Thomas G. Snead and Timothy P. Nolan (August 19, 2002) of Anthem Southeast (formerly Trigon Healthcare), William L. Jews (September 6, 2002) and David D. Wolf (September 19, 2002) of CareFirst, and Mark Mudeking (October 10, 2002) of Piper Rudnick.
- Minutes from meetings of the CareFirst Board of Directors and Strategic Planning Committee during the years 1999 – 2001, and presentations made by Credit Suisse First Boston to the Board of Directors and the Strategic Planning Committee during 2000 and 2001.
- Standard & Poor's credit reports for GHMSI, CFMI, and BCBSD, dated December 2001.
- Information provided by Trigon Healthcare regarding their participation in the sale process.
- Fairness opinion and valuation report of Credit Suisse First Boston, dated November 20, 2001, addressed to the CareFirst Board of Directors.
- Valuation report of Banc of America Securities, dated November 19, 2001, prepared for the Board of Directors of WellPoint Health Networks.
- Preliminary valuation report of The Blackstone Group, dated August 16, 2002, prepared for the Maryland Insurance Administration; and Analysis of CareFirst, Inc. Business Case prepared by The Blackstone Group, dated December 2002.
- Accenture's Community Impact Analysis of the Proposed Conversion of CareFirst, dated January 2002.
- Ellin & Tucker, Chartered's relative value allocation report of CFMI and GHMSI contributions to CareFirst, Inc, as of January 16, 1998 and dated July 7, 2000; and of CFMI/GHMSI and BCBSD contributions to CareFirst, Inc., as of March 22, 2000 and dated March 5, 2001.
- Carl J. Schramm's paper on Blue Cross Conversion: Policy Considerations Arising from a Sale of the Maryland Plan, dated November 2001.

- Executive compensation analysis prepared by The Hay Group, dated July 30, 2001; report on CareFirst, Inc. executive compensation prepared by Roger G. Brown & Associates, dated November 7, 2002; and the Memorandum of Law in Support of the Compensation Arrangements approved by the Board of Directors of CareFirst prepared by Funk & Bolton, dated November 13, 2002.
- CareFirst prepared analyses of net operating loss carryforward, AMT credit carryforward, FAS 87 pension costs, capital forecasts, impact of premium taxes, impact of the sale of the District of Columbia headquarters building, investment portfolio analysis, and other items necessary to create a forecast financial statement.
- A summary of the cost allocation methodology by Arthur Andersen, dated February 14, 2002.
- Documents related to the merger of FreeState Health Plan and CareFirst BlueChoice.
- Information related to the financial and operating performance of publicly traded managed care companies, and selected comparable managed care sale transactions.
- Other publicly available and CareFirst provided information which we deemed relevant in the conduct of our review.

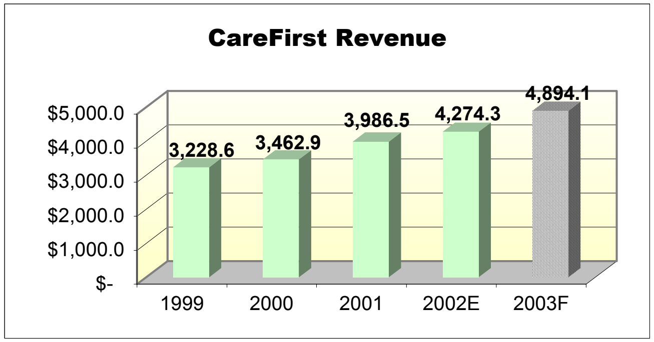
Further, we held meetings with the following parties:

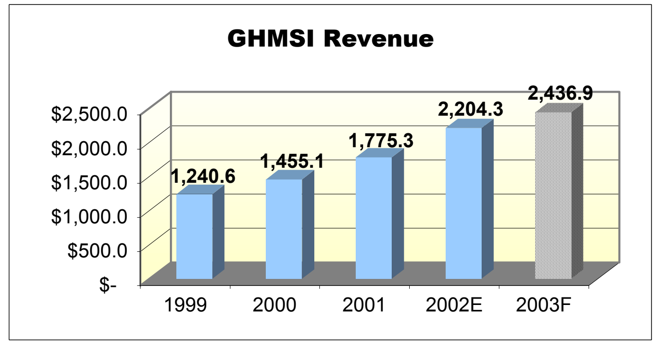
- numerous meetings and conversations with CareFirst senior management between August 2002 and January 2003.
- a meeting with representatives of WellPoint Health Networks, in their offices on October 3, 2002, and subsequent conversations with WellPoint representatives.
- a meeting with representatives of Banc of America Securities in their offices on October 2, 2002.
- a meeting with representatives of Credit Suisse First Boston in their offices on October 14, 2002.

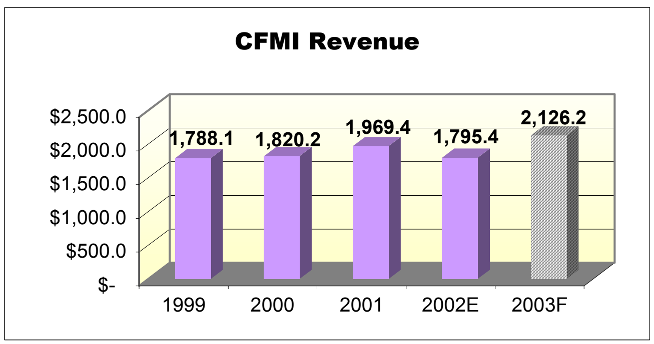
From 1999-2002 (based on the 2002 estimate), CareFirst, Inc. revenue grew at a compound annual growth rate of 9.8%. 2003 revenue growth is forecast at 14.5% over 2002 levels. CareFirst BlueChoice ("CFBC"), historically a GHMSI HMO, includes revenue (under $100 million) from enrollees in the CFMI service area, which is shown as GHMSI revenue.

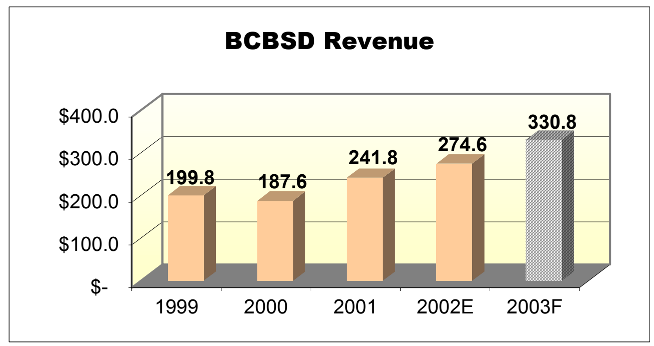
REVENUE

(Dollars in Millions)









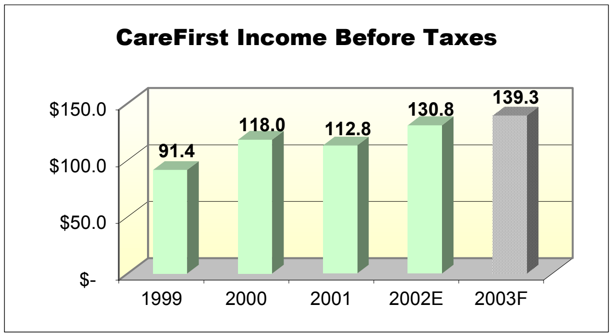
Notes:

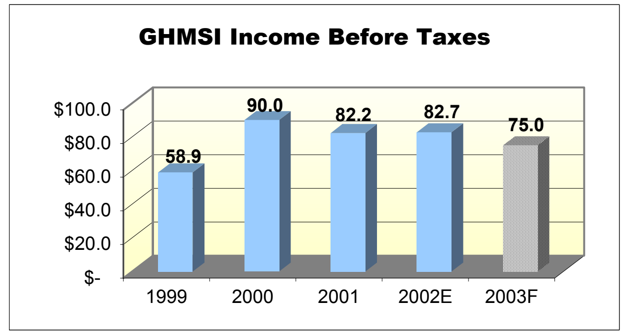
(1) Revenue on a premium plus fees basis.
(2) 1999-2001 and 9/30/02 data provided by CareFirst. 2002 estimate and 2003 forecast data based upon Cain Brothers estimates.
(3) 2002 revenue for GHMSI includes 40% of CFBC revenue for 10/1/02 - 12/31/02.
2002 revenue for CFMI includes 60% of CFBC revenue for 10/1/02 - 12/31/02.
(4) 2003 revenue for GHMSI and CFMI include 40% and 60% of CFBC revenue, respectively.
(5) CareFirst does not allocate CFBC revenue to GHMSI and CFMI as shown here, as CFBC is an unconsolidated subsidiary. Shown for illustrative purposes only.
(6) CFI total does not exactly match total of the three subsidiaries due to rounding and other minor CareFirst, Inc. activity.

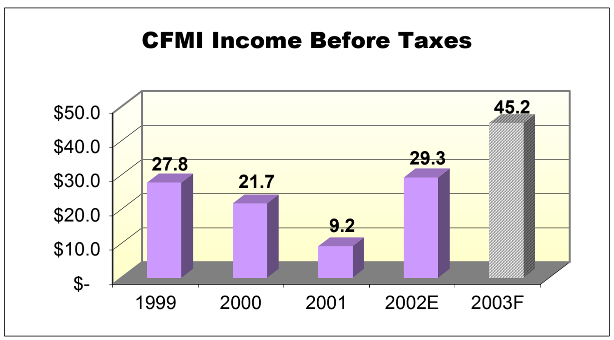
Income before taxes grew at a compound annual growth rate of 12.6% from 1999-2002 (based on the 2002 estimate), though 2003 growth is forecast to be only 6.5% over 2002 estimated levels. GHMSI accounts for the majority of income before taxes over the four-year historical period. The 2003 forecast anticipates an increase in income at CFMI and a slight drop at GHMSI, largely due to the new ownership arrangement for CFBC. After weaker performance in 1999 and 2000, BCBSD performance has been strong. Income before taxes varies from premium and equivalents (audit) presentation due to treatment of extraordinary items and discontinued operations (see Appendix A).

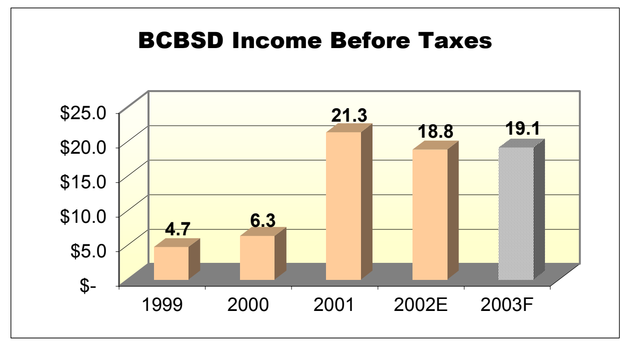
INCOME BEFORE TAXES

(Dollars in Millions)









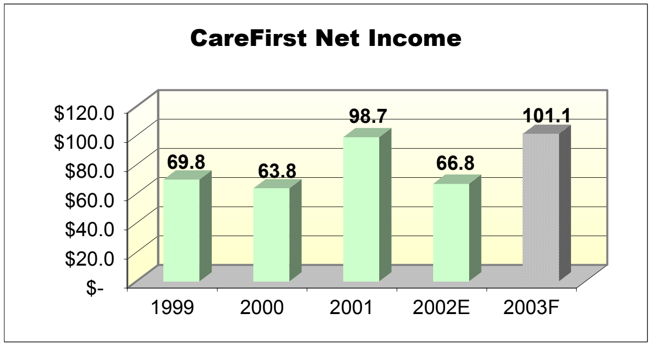
Notes:

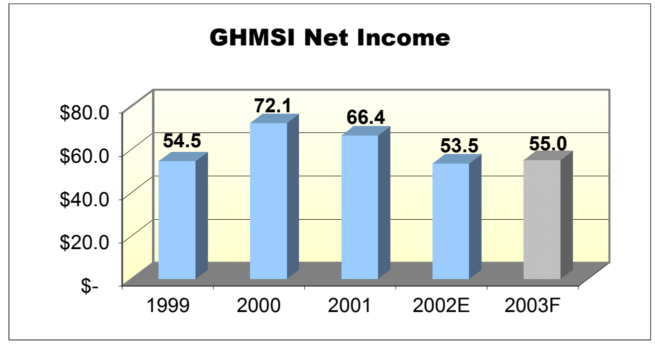
(1) Income before taxes on a premium plus fees basis.
(2) 1999-2001 and 9/30/02 data provided by CareFirst. 2002 estimate and 2003 forecast data based upon Cain Brothers estimates.
(3) 2002 income before taxes for GHMSI includes 40% of CFBC income before taxes for 10/1/02 - 12/31/02.
2002 income before taxes for CFMI includes 60% of CFBC income before taxes for 10/1/02 - 12/31/02.
(4) 2003 income before taxes for GHMSI and CFMI include 40% and 60% of CFBC income before taxes, respectively.
(5) CFI total does not exactly match total of the three subsidiaries due to rounding and other minor CareFirst, Inc. activity.

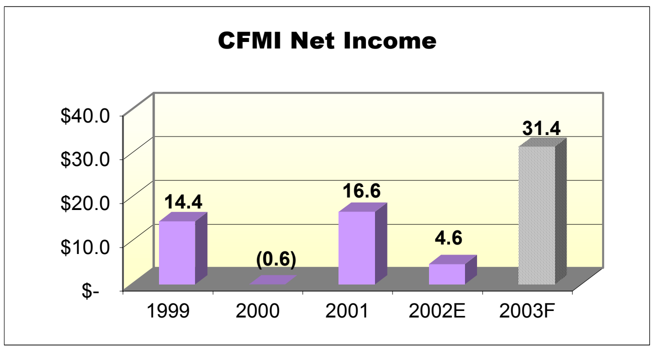
Net income takes into account both taxes and extraordinary items & discontinued operations. Extraordinary items & discontinued operations have been significant in most years in the CareFirst financials (see Financial Statements which follow and in Appendix A). Because of this, historical net income may not be the best measure of performance and value for CareFirst. Based on current projections for 2003, net income growth from 1999-2003 would be at a compound annual growth rate of 9.7%. Net income has been essentially flat between 1999-2002 (based on the 2002 estimate, which includes approximately $35 million of non-operating decreases to income).

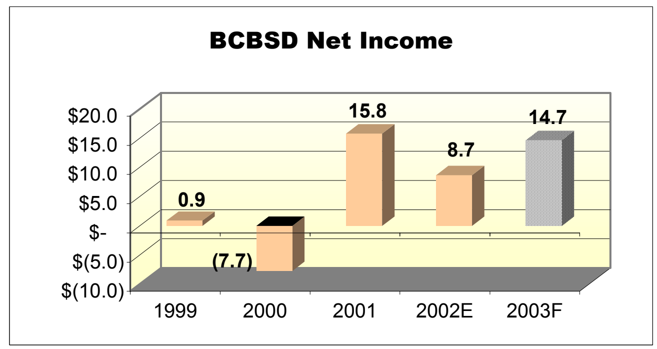
NET INCOME

(Dollars in Millions)









Notes:

(1) Net income on a premium plus fees basis.
(2) 1999-2001 and 9/30/02 data provided by CareFirst. 2002 estimate and 2003 forecast data based upon Cain Brothers estimates.
(3) 2002 net income for GHMSI includes 40% of CFBC net income for 10/1/02 - 12/31/02.
2002 net income for CFMI includes 60% of CFBC net income for 10/1/02 - 12/31/02.
(4) 2003 net income for GHMSI and CFMI include 40% and 60% of CFBC net income, respectively.
(5) CFI total does not exactly match total of the three subsidiaries due to rounding and other minor CareFirst, Inc. activity.

Premium and Fees Basis
(Dollars in thousands)

For the Year Ended December 31, 1999

	CFMI	% of total	GHMSI	% of total	BCBSD	% of total	Consolidated
Revenue	$1,788,100	55.4%	$1,240,600	38.4%	199,800	6.2%	$3,228,600
Incurred Care	1,461,100		1,045,800		145,300		2,652,200
Contribution Margin	327,000		194,800		54,500		576,400
Broker Fees	58,400		22,400		2,700		83,500
Administrative Expenses	273,300		132,100		54,900		460,200
Total Administrative Expenses	331,700		154,500		57,600		543,700
Operating Income	(4,700)	(14.5%)	40,300	124.0%	(3,100)	(9.5%)	32,700
Interest/Other Income	32,500	55.2%	18,600	31.6%	7,800	13.2%	58,800
Income before Taxes	27,800	30.4%	58,900	64.4%	4,700	5.1%	91,400
Total Taxes	(6,600)		(4,400)		(1,100)		(12,100)
Net Income from Continuing Operations	21,200	26.7%	54,500	68.7%	3,600	4.5%	79,300
Business Combination Costs	0		0		0		0
Discontinued Operations	(6,800)		0		(2,700)		(9,500)
Net Income	$14,400	20.6%	$54,500	78.1%	$900	1.3%	$69,800
Depreciation & Amortization	21,229		7,136		2,112		30,477
EBIT	27,800		58,900		4,700		91,400
EBITDA	49,029		66,036		6,812		121,877
Medical Loss Ratio	81.7%		84.3%		72.7%		82.1%
Operating Expense Ratio	18.6%		12.5%		28.8%		16.8%

* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Premium and Fees Basis
(Dollars in thousands)

For the Year Ended December 31, 2000

	CFMI	% of total	GHMSI	% of total	BCBSD	% of total	Consolidated
Revenue	1,820,200	52.6%	1,455,100	42.0%	187,600	5.4%	3,462,900
Incurred Care	1,507,800		1,216,100		131,200		2,855,100
Contribution Margin	312,400		239,000		56,400		607,800
Broker Fees	61,500		31,895		3,700		97,100
Administrative Expenses	260,400		140,305		54,622		455,300
Total Administrative Expenses	321,900		172,200		58,300		552,400
Operating Income	(9,500)	(17.1%)	66,800	120.5%	(1,900)	(3.4%)	55,400
Interest/Other Income	31,200	49.8%	23,200	37.1%	8,200	13.1%	62,600
Income before Taxes	21,700	18.4%	90,000	76.3%	6,300	5.3%	118,000
Total Taxes	(3,300)		(17,900)		(1,400)		(22,600)
Net Income from Continuing Operations	18,400	19.3%	72,100	75.6%	4,900	5.1%	95,400
Business Combination Costs	(300)		0		(9,000)		(9,300)
Discontinued Operations	(18,700)		0		(3,600)		(22,300)
Net Income	(600)	(0.9%)	72,100	113.0%	(7,700)	(12.1%)	63,800
Depreciation & Amortization	25,156		10,280		2,143		37,579
EBIT	21,700		90,000		6,300		118,000
EBITDA	46,856		100,280		8,443		155,579
Medical Loss Ratio	82.8%		83.6%		69.9%		82.4%
Operating Expense Ratio	17.7%		11.8%		31.1%		16.0%

* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Premium & Fees Basis
(Dollars in thousands)

For the Year Ended December 31, 2001

	CFMI	% of total	GHMSI	% of total	BCBSD	% of total	Consolidated
Revenue	1,969,400	49.4%	1,775,300	44.5%	241,800	6.1%	3,986,500
Incurred Care	1,617,900		1,494,600		164,800		3,277,200
Contribution Margin	351,500		280,700		77,000		709,300
Broker Fees	72,300		44,300		5,195		121,900
Administrative Expenses	302,400		189,700		59,605		551,600
Total Administrative Expenses	374,700		234,000		64,800		673,500
Operating Income	(23,200)	(65.0%)	46,700	130.8%	12,200	34.2%	35,800
Interest/Other Income	32,400	42.1%	35,500	46.1%	9,100	11.8%	77,000
Income before Taxes	9,200	8.2%	82,200	72.9%	21,300	18.9%	112,800
Total Taxes	(100)		(15,800)		(4,300)		(20,400)
Net Income from Continuing Operations	9,100	9.8%	66,400	71.8%	17,000	18.4%	92,400
Business Combination Costs	0		0		0		0
Discontinued Operations	7,500		0		(1,200)		6,300
Net Income	16,600	16.8%	66,400	67.2%	15,800	16.0%	98,700
Depreciation & Amortization	27,276		10,052		1,873		39,201
EBIT	9,200		82,200		21,300		112,800
EBITDA	36,276		92,252		23,173		152,001
Medical Loss Ratio	82.1%		84.2%		68.2%		82.2%
Operating Expense Ratio	19.0%		13.2%		26.8%		16.9%

* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Premium & Fees Basis
(Dollars in thousands)

For the Nine Month Period Ending September 30, 2002[1]

	CFMI			GHMSI			BCBSD			Consolidated	
	9 Month Actual	% of total	Full Year 2002 Forecast	9 Month Actual	% of total	Full Year 2002 Forecast	9 Month Actual	% of total	Full Year 2002 Forecast	9 Month Actual	Full Year 2002 Forecast
Revenue	1,306,700	41.0%	1,795,388	1,679,600	52.7%	2,204,312	203,600	6.4%	274,611	3,189,900	4,274,308
Incurred Care	1,055,400		1,439,041	1,420,600		1,866,409	143,700		193,798	2,619,700	3,499,245
MHIP Tax	0		0	0		0	0		0	0	0
Total Care	1,055,400		1,439,041	1,420,600		1,866,409	143,700		193,798	2,619,700	3,499,245
Contribution Margin	251,300		356,348	259,000		337,902	59,900		80,813	570,200	775,063
Broker Fees	48,400		68,753	47,600		68,484	4,700		6,275	100,800	143,513
Administrative Expenses	208,400		285,731	170,300		217,326	47,400		63,438	426,000	566,499
Total Administrative Exp.	256,800		354,484	217,900		285,810	52,100		69,713	526,800	710,012
Operating Income	(5,500)	(12.7%)	1,864	41,100	94.7%	52,092	7,800	18.0%	11,100	43,400	65,051
Interest/Other Income	20,600	41.0%	27,433	23,700	47.2%	30,643	5,900	11.8%	7,660	50,200	65,737
Equity Interest in Uncon Sub.	0		0	0		0	0		0	0	0
Income before Taxes	15,100	16.1%	29,296	64,800	69.2%	82,736	13,700	14.6%	18,760	93,600	130,788
Total Taxes	(4,500)		(7,579)	(9,600)		(13,358)	(3,000)		(4,053)	(17,200)	(24,987)
Net Income from Continuing Operations	10,600	13.9%	21,718	55,200	72.2%	69,377	10,700	14.0%	14,707	76,400	105,801
Business Combination Costs	(2,400)		(4,000)	(1,700)		(3,000)	(200)		(1,000)	(4,300)	(8,000)
Discontinued Operations	4,000		4,004	0		0	0		0	4,000	4,004
Intangible Asset Impairment	0		(6,657)	0		(3,343)	0		0	0	(10,000)
Equity Interest in Uncon Sub.	0		0	0		0	0		0	0	0
FAS 115 Mark to Market			(10,500)	0		(9,500)	0		(5,000)		(25,000)
Net Income	12,200	16.0%	4,565	53,500	70.2%	53,534	10,500	13.8%	8,707	76,100	66,805
Depreciation & Amortization[2]	17,128		22,837	12,223		16,297	3,702		4,936	33,053	44,070
EBIT	15,100		29,296	64,800		82,736	13,700		18,760	93,600	130,788
EBITDA	32,228		52,133	77,023		99,033	17,402		23,696	126,653	174,858
Medical Loss Ratio	80.8%		80.2%	84.6%		84.7%	70.6%		70.6%	82.1%	81.9%
Operating Expense Ratio	19.7%		19.7%	13.0%		13.0%	25.6%		25.4%	16.5%	16.6%

(1) 9 month actual data provided by CareFirst. Full year forecast based upon Cain Brothers estimates.
(2) Depreciation and amortization for 9/30/02 based upon ¾ of 2002 full year forecast.
(3) CareFirst BlueChoice allocated 60% to CFMI and 40% to GHMSI for illustrative purposes only.
* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Premium & Fees Basis
(Dollars in thousands)

For the Last 12 Months Period Ending September 30, 2002

	CFMI	% of total		GHMSI	% of total		BCBSD	% of total		Consolidated
Revenue	1,783,600	42.5%		2,139,100	51.0%		270,500	6.5%		4,193,200
Incurred Care	1,440,200			1,811,400			187,700			3,439,200
Contribution Margin	343,400			327,700			82,800			754,000
Broker Fees	65,100			60,600			6,100			132,000
Administrative Expenses	288,900			221,900			62,500			572,900
Total Administrative Expenses	354,000			282,500			68,600			704,900
Operating Income	(10,600)	(21.7%)		45,200	92.6%		14,200	29.1%		49,100
Interest/Other Income	28,000	41.1%		31,300	46.0%		8,800	12.9%		68,000
Income before Taxes	17,400	14.9%		76,500	65.4%		23,000	19.7%		117,100
Total Taxes	(3,400)			(11,100)			(5,000)			(19,600)
Net Income from Continuing Operations	14,000	14.4%		65,400	67.1%		18,000	18.5%		97,500
Business Combination Costs	(2,400)			(1,700)			(200)			(4,300)
Discontinued Operations	10,100			0			(1,100)			8,900
Net Income	21,700	21.3%		63,700	62.4%		16,700	16.4%		102,100
Depreciation & Amortization(1)	23,501			15,182			4,170			42,854
EBIT	17,400			76,500			23,000			117,100
EBITDA	40,901			91,682			27,170			159,954
Medical Loss Ratio	80.7%			84.7%			69.4%			82.0%
Operating Expense Ratio	19.8%			13.2%			25.4%			16.8%

(1) Depreciation and amortization estimated by CareFirst; with CFBC depreciation and amortization allocated 60% to CFMI and 40% to GHMSI for illustrative purposes.
* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Balance Sheet
For the Year Ended December 31, 2001
(Dollars in thousands)

	CFMI	GHMSI	BCBSD	Consolidated
Assets				
Current Assets				
Cash and Equivalents	$81,635	$44,186	$36,240	$162,390
Short-Term Investments	869	9,940	7,261	18,073
Advances to Providers	125,396	13,777	668	139,841
Accounts Receivable:				
Premium & Other	0	0	0	0
Non-Risk Paid Claims	0	0	0	0
Non-Risk Unpaid Claims	0	0	0	0
Total Receivables	347,794	289,660	61,908	699,380
Other Current Assets	78,875	260,465	5,719	344,131
Total Current Assets	634,569	618,028	111,796	1,363,815
Non-Current Assets				
Long-Term Investments	371,352	459,960	124,474	959,911
Property and Equipment	129,947	32,474	8,066	170,487
Other Non-Current Assets	57,051	14,208	5,732	75,478
Total Non-Current Assets	558,350	506,642	138,272	1,201,876
Total Assets	$1,192,919	$1,124,670	$250,068	$2,565,691
Liabilities and Reserves				
Current Liabilities				
Short-Term Borrowings	$52,141	$31,512	$11,255	$94,908
Unpaid Claims	382,491	322,725	70,555	775,771
Accounts Payable/Accrued Exp.	166,175	85,717	47,604	299,617
Experience Funds/Advances	104,984	41,722	143	146,849
Unearned Income	84,500	301,110	6,053	391,663
Current Portion of Note Payable	0	8,937	0	8,937
Net Current Liab. from discont. Ops.	0	0	1,342	411
Total Current Liabilities	790,291	791,723	136,952	1,718,156
Other Liabilities	22,495	26,817	14,698	62,851
Total Liabilities	812,786	818,540	151,650	1,781,007
Reserves/Unassigned Funds	383,832	301,920	95,727	781,479
Accum. Other comp. Income	(3,699)	4,210	2,691	3,205
Total Reserves	380,133	306,130	98,418	784,684
Total Liabilities and Reserves	$1,192,919	$1,124,670	$250,068	$2,565,691

* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Balance Sheet
For the Period Ending September 30, 2002
(Dollars in thousands)

	CFMI	GHMSI	BCBSD	Consolidated
Assets				
Current Assets				
Cash and Equivalents	$105,900	$111,000	$31,800	$249,000
Short-Term Investments	0	6,100	8,700	14,900
Advances to Providers	130,500	19,600	400	150,500
Accounts Receivable:				
Premium & Other	53,100	41,500	9,500	102,000
Non-Risk Paid Claims	12,700	14,100	14,800	41,600
Non-Risk Unpaid Claims	250,400	259,400	53,300	563,100
Total Receivables	316,200	315,000	77,600	706,700
Other Current Assets	83,200	289,400	11,500	384,100
Total Current Assets	635,800	741,100	130,000	1,505,300
Non-Current Assets				
Long-Term Investments	374,000	497,200	128,300	999,400
Property and Equipment	115,700	43,500	7,800	167,000
Other Non-Current Assets	53,000	1,000	0	54,000
Total Non-Current Assets	542,700	541,700	136,100	1,220,400
Total Assets	$1,178,500	$1,282,700	$266,100	$2,725,700
Liabilities and Reserves				
Current Liabilities				
Short-Term Borrowings	$51,500	$36,700	$13,300	$101,500
Unpaid Claims	400,900	416,400	87,200	904,500
Accounts Payable/Accrued Exp.	160,200	115,600	54,700	328,800
Experience Funds/Advances	63,800	41,700	100	105,600
Unearned Income	84,900	302,400	4,600	392,000
Total Current Liabilities	761,300	912,800	159,900	1,832,400
Other Liabilities	21,500	7,600	2,200	31,400
Total Liabilities	782,800	920,400	162,100	1,863,800
Reserves/Unassigned Funds	395,900	355,500	106,400	857,900
Accum. Other comp. Income	(300)	6,800	(2,500)	4,000
FAS 115 – Mark to Market	0	0	0	0
Total Reserves	395,600	362,300	103,900	861,900
Total Liabilities and Reserves	$1,178,500	$1,282,700	$266,100	$2,725,700

* Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Balance Sheet
For the Period Ending December 31, 2002
(Dollars in thousands)

	CFMI	GHMSI	BCBSD	CFBC	Eliminations	Consolidated
Assets						
Current Assets						
Cash and Equivalents	94,200	102,900	53,800	22,000	0	273,200
Short-Term Investments	0	6,200	11,100	2,900	0	20,200
Advances to Providers	105,400	19,600	400	24,700	0	150,100
Accounts Receivable:						
Premium & Other	71,600	19,000	11,500	9,000	0	110,600
Non-Risk Paid Claims	200	16,600	11,000	800	0	28,700
Non-Risk Unpaid Claims	250,900	251,500	54,400	6,600	0	563,400
Total Receivables	322,700	287,100	76,900	16,400	0	702,700
Other Current Assets	66,800	363,400	12,300	11,400	0	454,000
Total Current Assets	589,100	779,200	154,500	77,400	0	1,600,200
Non-Current Assets						
Long-Term Investments	440,900	460,600	116,100	161,800	(143,100)	1,036,400
Property and Equipment	98,300	48,000	7,700	16,300	0	170,300
Other Non-Current Assets	23,300	(700)	0	17,000	0	39,600
Total Non-Current Assets	562,500	507,900	123,800	195,100	(143,100)	1,246,300
					0	
Total Assets	1,151,600	1,287,100	278,300	272,500	(143,100)	2,846,500
Liabilities and Reserves						
Current Liabilities						
Short-Term Borrowings	59,400	36,400	13,400	400	0	109,500
Unpaid Claims	365,700	339,300	89,000	107,200	0	901,300
Accounts Payable/Accrued Exp.	183,900	100,400	67,400	21,100	0	372,800
Experience Funds/Advances	59,200	45,600	100	300	0	105,200
Unearned Income	83,500	380,700	5,900	400	0	470,600
Total Current Liabilities	751,700	902,400	175,800	129,400	0	1,959,400
Other Liabilities	21,500	6,900	2,100	0	0	30,500
Total Liabilities	773,200	909,300	177,900	129,400	0	1,989,900
Reserves/Unassigned Funds	389,700	369,100	107,300	134,100	(134,100)	866,100
Accum. Other comp. Income	(11,300)	8,700	(6,900)	9,000	(9,000)	(9,500)
Total Reserves	378,400	377,800	100,400	143,100	(143,100)	856,600
Total Liabilities and Reserves	1,151,600	1,287,100	278,300	272,500	(143,100)	2,846,500

* CareFirst BlueChoice(CFBC) reserves and long-term investments are eliminated at CFI through the consolidation process.
** Consolidated total does not equal the total of the three affiliates due to rounding and other minor CareFirst, Inc. activity.

Enrollment

For the Year Ended December 31, 1999

	CFMI	GHMSI	BCBSD	Consolidated
Total Indemnity Risk	368,000	123,900	51,300	543,200
Commercial HMO Risk	301,000	95,500	0	396,500
Total Risk	669,000	219,400	51,300	939,700
Total FEP	169,000	332,200	11,600	512,800
Total Risk and FEP	838,000	551,600	62,900	1,452,500
Total Indemnity Non-Risk	754,000	312,500	136,100	1,202,600
Total Members	1,592,000	864,100	199,000	2,655,100

For the Year Ended December 31, 2000

	CFMI	GHMSI	BCBSD	Consolidated
Total Indemnity Risk	380,900	172,600	56,500	610,000
Commercial HMO Risk	326,400	117,300	0	443,700
Total Risk	707,300	289,900	56,500	1,053,700
Total FEP	173,000	335,800	14,700	523,500
Total Risk and FEP	880,300	625,700	71,200	1,577,200
Total Indemnity Non-Risk	798,200	382,600	159,400	1,340,200
Total Members	1,678,500	1,008,300	230,600	2,917,400

For the Year Ended December 31, 2001

	CFMI	GHMSI	BCBSD	Consolidated
Total Indemnity Risk	390,200	206,600	65,200	662,000
Commercial HMO Risk	207,700	166,200	0	373,900
Total Risk	597,900	372,800	65,200	1,035,900
Total FEP	173,000	334,600	13,600	521,200
Total Risk and FEP	777,900	707,400	78,800	1,557,100
Total Indemnity Non-Risk	964,100	380,000	202,200	1,546,300
Total Members	1,735,000	1,087,400	281,000	3,103,400

- Commercial HMO enrollment in GHMSI includes 6,844 members in CareFirst BlueChoice (a GHMSI HMO) from counties in Maryland outside of Montgomery and Prince Georges Counties. This represents CareFirst's estimate of average members from Maryland outside of Montgomery and Prince Georges Counties over the 12 months of 2001.
- Source – CareFirst

For the Period Ending September 30, 2002

	CFMI	GHMSI	BCBSD	Consolidated
Total Indemnity Risk	360,300	220,500	70,600	651,400
Commercial HMO Risk	71,700	263,800	0	335,500
Total Risk	432,000	484,300	70,600	986,900
Total FEP	175,700	338,300	15,500	529,500
Total Risk and FEP	607,700	822,600	86,100	1,516,400
Total Indemnity Non-Risk	999,300	443,500	236,700	1,679,500
Total Members	1,607,000	1,266,100	322,800	3,195,900

- Commercial HMO Enrollment in GHMSI includes 58,779 members in CareFirst BlueChoice (a GHMSI HMO) from counties in Maryland outside of Montgomery and Prince Georges Counties. This represents CareFirst's estimate of average members from Maryland outside of Montgomery and Prince Georges Counties over the first 8 months of 2002.
- Source – CareFirst

Significant Valuation Factors and Competition

Significant Valuation Factors

Positive	Negative
Healthcare stocks, including managed care stocks, are well received on Wall Street. For the period from November 20, 2001 to December 31, 2002, the Cain Brothers HMO index increased by approximately 21%, compared to a decline in the S&P 500 Index of 23%.	Although CareFirst profitability has improved, the rate of growth of income has lagged that of the public managed care companies, for which the median five-year historical and estimated net income growth rate is in the range of 15%. CareFirst projected net income growth and income before taxes compound annual growth rate for 1999-2003 is in the 9.5% - 11.0% range.
The BlueCross BlueShield brand is valuable, as indicated by the valuation of public BlueCross plans, employer surveys, and market shares of the BlueCross plans. The Blue Card program is an area of large potential growth.	The Maryland regulatory environment, which includes hospital rate regulation, mandates for individual and small group insurance, and individual and small group rate regulation, makes it difficult for the Maryland business to achieve the same level of profitability as the D.C. and Delaware businesses. This has been true historically, and is expected to continue in 2003. A counter to this is that CFMI faces less competition (perhaps because of this), and CFMI has the largest market share of the three affiliates.
There have only been a limited number of large managed care companies for sale in recent years, so CareFirst has "scarcity" value. There are few BlueCross plans available for the public for-profit BlueCross companies to acquire, adding to its scarcity value.	Elimination of CareFirst access to the Maryland SAAC discount (starting 7/1/03) and the start of payment of a premium tax equivalent as of 4/01/03 could negatively impact CFMI (and to a lesser extent, GHMSI) profitability. These incremental costs are offset by: (1) the end of participation in the open enrollment program as of 7/1/03 (retroactive to 4/1/03) and the end of participation in the senior prescription drug program (both of which are transferred to MHIP as of 7/1/03), and (2) the ability of CareFirst to pass along higher costs to risk and non-risk accounts equal to the loss of the SAAC discount. CareFirst estimates that for 2003, the net financial impact of all of these items will be cost neutral. This may not prove to be true, and in the future CareFirst may not be able to pass along these costs without adverse impact (such as a loss of accounts).
CareFirst market share as of 12/31/2001 was 38% in its total service area, 43% in Maryland, 28% in the District of Columbia, and 32% in Delaware. This creates leverage in provider contracting, except to a lesser extent in Maryland where hospital rates are regulated.	Over 25% of GHMSI enrollment is in the Federal Employee Program ("FEP"), creating a concentration of business risk with this account. However, we note that GHMSI has participated in the FEP program and run the FEP Data Center since the early 1960s. Also, the D.C. unemployment rate is higher than that for Maryland or Delaware, though population growth in northern Virginia is robust.

Significant Valuation Factors

Positive	Negative
CareFirst provides market diversification, as it covers two states (MD and DE), the District of Columbia, and parts of northern Virginia.	According to Standard & Poor's, BCBSD faces increased competition because of the attractiveness to health insurers of its credit card banking and chemical company employers. As of December 2001, ten accounts made up over 50% of BCBSD membership.
The service area is generally strong and growing, with an unemployment rate of 6.0% in D.C., 4.0% in Maryland, and 4.0% in Delaware, as of November 2002, compared to the national average of 6.0%. [Source: U.S. Bureau of Labor Statistics - seasonally adjusted numbers]	A number of administrative costs have been historically low (real estate costs, pension costs), and could increase at a rate higher than revenue increases, impacting profitability.
Profitability at CareFirst has improved, with income before taxes and extraordinary items increasing from $91.4 million in 1999 to an estimated $130.8 million for 2002. Management has improved operations and integrated the activities of the GHMSI and CFMI affiliates.	Because of recent stock market performance, the pension funding status for CareFirst has been adversely impacted, with a current estimates that as of 01/01/03 CareFirst will have well in excess of $50 million of unfunded pension liabilities (estimate depending upon the methodology used).
Reserve levels are high. As of 12/31/2002, we estimate total CareFirst reserves at over 600% of Risk Based Capital ("RBC"), with over 1,500% at BCBSD, close to 600% at GHMSI, and just over 500% at CFMI.	The non-risk (administrative services only) business is becoming more competitive in the CareFirst service area, and profitability is projected by CareFirst to decline in 2003.
The Federal Employee Program, though only marginally profitable, is a steady business, and covers CareFirst overhead, including portions of its information technology budget. The GHMSI contract to operate the FEP Data Center covers significant overhead.	Employee satisfaction surveys provided by CareFirst indicate that CareFirst has lost its substantial advantage compared to its competitors in customer satisfaction.
CareFirst has a conservative investment strategy, with approximately 85% of investments in fixed income securities, which has shielded it from the decline in the equity markets.	CFMI owns two medical groups for which financial performance is unprofitable (they are consolidated into CFMI financial statements).
We estimate that CareFirst net operating loss carryforwards ("NOLs") and AMT credits could be worth approximately $143 million on a present value basis to a fully taxed acquirer.	
CareFirst cash flow and net income have improved between 2001 and 2002, leading to higher valuations.	

Significant Valuation Factors

Positive	Negative
CareFirst and its advisors analyzed alternatives for the company, including maintenance of the status quo, strategic affiliation with another non-profit BlueCross plan, raising debt capital, conversion and raising public capital. The decision to convert and merge with a public company came at the end of this process.	Non-economic factors, including location of corporate headquarters, corporate name and branding, composition of the Board, continuing role of existing CareFirst subsidiary directors, location of employees and facilities by state, commitment to CareFirst employees, continued relationship with CareFirst providers, and continued service of existing CareFirst market segments appear to have been important factors in the selection process, and may have affected the purchase price.
As discussed in Section 2, CareFirst limited the sale process to other BlueCross BlueShield plans, who could offer the highest valuation for CareFirst.	The efficacy of the competitive process is unclear due to exclusion of Anthem, Inc. Additionally, testimony by Trigon Healthcare management to the effect that they were not encouraged to increase their bid as a result of CareFirst guidance to improve other "non-price" components of their offer, as well as a review of information provided by Trigon, raise questions about the competitive process.
A "fiduciary out" in the Agreement and Plan of Merger provides the possibility of a continued competitive process.	The Agreement and Plan of Merger gives WellPoint the right to match a superior offer if they so choose. Such a provision can chill the bidding process, and may inhibit other potential buyers from stepping forward.
The $37.5 million break-up fee to WellPoint (if CareFirst accepts a Superior Proposal) is reasonable given the size of the transaction, based upon independent data we have reviewed, and should not be an impediment to the competitive process. We note that on January 21, 2003, WellPoint and CareFirst announced a proposed form of Amended Merger Agreement whereby WellPoint would waive the termination fee (except for reimbursement of certain expenses) for a period of 60 days after the signing date of the Amended Merger Agreement.	

CareFirst provided market share trends by competitor and state, which is found below. As of 12/31/01, the CareFirst market share in its total service area was almost three times that of its nearest competitor (38% for CareFirst, 13% for MAMSI). The market share is also shown by State, and the Maryland data includes Montgomery County and Prince George's County, which are part of GHMSI's service area. The data covers both risk and non-risk accounts.

Market Share Trends By Competitor & State
Years Ended 12/31

CareFirst Market Area

	1995	1999	2000	2001
CareFirst	28%	41%	38%	38%
MAMSI	9%	8%	15%	13%
Aetna	16%	12%	14%	12%
Kaiser	7%	10%	8%	9%
Cigna	2%	3%	4%	4%
United	2%	4%	2%	2%
Coventry	0%	0%	2%	3%
GW Health Plan	0%	2%	2%	0%
Other	36%	20%	15%	19%
Total	100%	100%	100%	100%

Market Share Trends by Competitor & State
Years Ended 12/31

Maryland

	1995	1999	2000	2001
CareFirst	31%	49%	43%	43%
MAMSI	9%	9%	17%	16%
Aetna	13%	11%	14%	13%
Kaiser	7%	7%	7%	7%
Cigna	2%	3%	4%	4%
United	2%	4%	2%	2%
GW Health Plan	0%	1%	1%	0%
Other	36%	16%	12%	15%
Total	100%	100%	100%	100%

Market Share Trends by Competitor & State
Years Ended 12/31

Washington DC / Northern VA

	1995	1999	2000	2001
CareFirst	24%	26%	28%	28%
MAMSI	0%	5%	11%	9%
Aetna	15%	15%	14%	14%
Kaiser	12%	18%	12%	15%
Cigna	2%	3%	6%	5%
United	2%	3%	2%	2%
Trigon	0%	6%	4%	3%
GW Health Plan	3%	3%	5%	0%
Other	45%	24%	18%	24%
Total	103%(1)	103%(1)	100%	100%

Market Share Trends by Competitor & State
Years Ended 12/31

Delaware

	1995	1999	2000	2001
CareFirst	30%	31%	32%	32%
Coventry	13%	17%	21%	23%
Aetna	12%	13%	11%	5%
AmeriHealth	5%	8%	3%	0%
Christiana Care	0%	6%	9%	0%
MAMSI	1%	0%	5%	3%
Cigna	1%	2%	2%	1%
Other	38%	23%	17%	36%
Total	100%	100%	100%	100%

Notes:

1) Totals sum to more than 100% due to rounding.
2) Aetna share includes NYLCare and Prudential enrollment, even though the mergers were not completed at that date, for consistency in reporting.
3) 1995 and 1999 CareFirst share excludes Delaware.
4) The method and sources used to calculate the 1995 share information differ from those used to calculate share in 1999 and beyond. Nevertheless, 1995 data is supplied to provide the reader with a broad estimation of the baseline. Source and methodological differences should be kept in mind when making comparisons to years subsequent to 1995.
5) Starting in 1999, subsequent to the BCBSMD/GHMSI affiliation, consistent sources and methodologies were applied to calculate market share.
6) Because methodological and sourcing differences mentioned above, reliable, consistent share information from 1996-1998 is not available.
7) CareFirst does not have market share information for 1990-1994.
8) Northern Virginia included in the D.C. calculation because GHMSI's service area extends into northern Virginia.
9) Sources: CareFirst internal enrollment data
   Standard & Poor's Briefing Book
   Solucient HealthPlus Survey 2000-2001
   NRC Report Card Survey 1995-1999
   Delaware Insurance Department HMO/POS filings

Public Market Valuation Methodology

The Public Market Valuation Methodology entails an analysis of publicly traded companies exhibiting similar size, geographic, operating, and financial characteristics as CareFirst. This methodology, therefore, operates under the assumption that comparable companies should be valued similarly in the public market.

We identified thirteen publicly traded managed care companies whose principal business is closely related to that of CareFirst. While generally similar in business, these companies have meaningful differences with respect to size, financial performance, geography, and market expectation of future performance, all of which have important consequences with respect to market valuations. We then selected a subset of eight public companies, representing those we viewed as most comparable with respect to BlueCross BlueShield status, size, profitability, geographic concentration, historical growth of net income, and medical cost ratio. Not all of these factors were given equal weight.

We analyzed publicly available information furnished to shareholders or filed with the SEC or other regulatory bodies during some prescribed period of time (e.g.- Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, and prospectuses) in order to generate a set of defined operating and market statistics.

The following tables summarize key financial and operating data, and valuation multiples for the universe of thirteen publicly traded managed care companies. In the public company data, we show financial results for the twelve month period ended September 30, 2002 (which represents the most recent information available), projected calendar year 2002 and calendar year 2003 price to equity ("P/E") ratios as compiled by First Call, and stock prices as of January 23, 2003.

Public Company Comparables

	LTM Operating Margins				Share Price/		Enterprise Value[1] /			
Company	**MLR[2]**	**EBITDA[3]**	**EBIT[4]**	**Net Inc.**	**LTM EPS**	**CY2002 EPS[5]**	**LTM Revenue**	**LTM EBITDA[3]**	**LTM EBIT[4]**	**CEL[6]**
Large Cap.										
Anthem	83.1%	8.1%	7.0%	3.9%	19.0x	15.3x	0.87x	10.8x	12.4x	1,616.16
CIGNA	NA	(0.6%)	(1.7%)	(1.3%)	(25.0x)	6.8x	0.40x	(68.0x)	(22.7x)	821.06
UnitedHealth Group	80.9%	9.2%	8.2%	5.0%	22.2x	20.2x	1.13x	12.2x	13.8x	4,354.95
WellPoint Health Networks	81.3%	7.9%	7.3%	3.9%	16.5x	16.2x	0.72x	9.1x	10.0x	1,294.81
Large Cap. Mean	**81.8%**	**8.4%**	**7.5%**	**4.3%**	**19.3x**	**14.6x**	**0.78x**	**10.7x**	**12.0x**	**2,021.74**
Large Cap. Median	**81.3%**	**8.0%**	**7.2%**	**3.9%**	**17.8x**	**15.7x**	**0.80x**	**9.9x**	**11.2x**	**1,455.49**
Mid Cap.										
Coventry Health Care	84.4%	6.6%	6.0%	3.7%	14.3x	12.2x	0.55x	8.3x	9.1x	1,251.57
Health Net	84.0%	5.0%	4.3%	2.5%	13.9x	12.7x	0.38x	7.6x	9.0x	985.21
Humana Inc.	83.7%	3.8%	2.6%	1.6%	9.9x	8.7x	0.21x	5.5x	8.1x	582.29
Mid Atlantic Medical Services	85.5%	5.7%	5.2%	3.5%	18.4x	17.1x	0.75x	13.1x	14.4x	NA
Oxford Health Plans	79.0%	12.1%	11.7%	7.0%	10.0x	10.4x	0.69x	5.7x	5.9x	2,034.21
PacifiCare Health Systems	87.4%	2.8%	2.0%	0.7%	13.4x	7.5x	0.16x	5.7x	8.1x	461.69
WellChoice	86.2%	NA	4.7%	2.5%	15.4x	12.5x	0.40x	NA	8.5x	577.31
Mid Cap. Mean	**84.3%**	**6.0%**	**5.2%**	**3.1%**	**13.6x**	**11.6x**	**0.45x**	**7.7x**	**9.0x**	**982.05**
Mid Cap. Median	**84.4%**	**5.4%**	**4.7%**	**2.5%**	**13.9x**	**12.2x**	**0.40x**	**6.7x**	**8.5x**	**783.75**
Small Cap.										
Cobalt	87.2%	3.7%	2.8%	1.9%	21.6x	12.7x	0.40x	10.7x	14.3x	605.06
Sierra Health Services	80.5%	6.0%	4.5%	2.5%	12.2x	10.7x	0.34x	5.7x	7.7x	978.75
Small Cap. Mean	**83.9%**	**4.9%**	**3.6%**	**2.2%**	**16.9x**	**11.7x**	**0.37x**	**8.2x**	**11.0x**	**791.91**
Small Cap. Median	**83.9%**	**4.9%**	**3.6%**	**2.2%**	**16.9x**	**11.7x**	**0.37x**	**8.2x**	**11.0x**	**791.91**
Overall Mean	**83.6%**	**6.5%**	**5.5%**	**3.2%**	**15.6x**	**12.5x**	**0.54x**	**8.6x**	**10.1x**	**1,296.92**
Overall Median	**83.9%**	**5.9%**	**4.7%**	**2.5%**	**14.3x**	**12.5x**	**0.40x**	**8.0x**	**9.0x**	**981.98**
High	**87.4%**	**12.1%**	**11.7%**	**7.0%**	**22.2x**	**20.2x**	**1.13x**	**13.1x**	**14.4x**	**4,354.95**
Low	**79.0%**	**(0.6%)**	**(1.7%)**	**(1.3%)**	**(25.0x)**	**6.8x**	**0.16x**	**(68.0x)**	**(22.7x)**	**461.69**

(1) Enterprise value = market value of equity + debt (short and long-term) + minority interest.
(2) Medical loss ratio (MLR) represents a year-to-date ratio.
(3) EBITDA = Earnings before interest, taxes, depreciation, and amortization.
(4) EBIT = Earnings before interest and taxes.
(5) CY2002 EPS-Source: First Call
(6) CEL (Commercially Equivalent Lives) was calculated using the following weightings: Risk = 1.0x, Medicaid = 0.5x, Medicare = 2.0x, Non-risk = 0.2x, FEP =0.2x.

*Mean calculated excluding negative numbers.

Public Company Comparables (continued)

Company	Stock Price 1/23/2003	Debt / Equity	Estimates[1] CY2002 EPS	CY2003 EPS	Est. 5yr Erngs Grth	PEG[2]
Large Cap.						
Anthem	$62.50	31.1%	4.08	4.73	15.0%	1.00
CIGNA	44.86	36.6%	6.56	5.83	13.1%	0.53
UnitedHealth Group	84.79	38.4%	4.20	5.05	17.5%	1.13
WellPoint Health Networks	70.91	30.6%	4.39	5.10	15.0%	1.06
Mid Cap.						
Coventry Health Care	$29.02	27.3%	2.37	2.77	15.0%	0.80
Health Net	27.75	29.6%	2.18	2.46	15.0%	0.82
Humana Inc.	10.35	35.9%	1.19	1.38	15.0%	0.59
Mid Atlantic Medical Services	34.21	1.0%	2.00	2.36	15.0%	1.09
Oxford Health Plans	36.28	26.1%	3.50	4.04	14.0%	0.74
PacifiCare Health Systems	29.15	59.7%	3.90	4.27	12.0%	0.61
WellChoice	22.90	3.9%	1.83	2.20	15.0%	0.82
Small Cap.						
Cobalt	$14.55	10.0%	1.15	0.98	20.0%	0.63
Sierra Health Services	14.28	44.2%	1.34	1.57	15.0%	0.69

(1) Source: First Call
(2) PEG = price to earnings ratio divided by long-term growth rate

*The following were adjusted for extraordinary items and/or discontinued operations to achieve normalized financial results: Anthem, Cobalt, Coventry, HealthNet, Oxford, PacifiCare, Sierra, WellPoint, and WellChoice.
**WellChoice was adjusted pro forma to reflect new income tax and premium tax rates, applicable upon conversion to a for-profit entity, as per information provided in WellChoice SEC filings.

For valuation purposes, we selected a subset of eight public companies for our analysis. We included the four BlueCross Blue Shield companies (WellPoint, Anthem, WellChoice, and Cobalt), and four regional "mid-sized capitalization" managed care companies (Coventry Health Care, HealthNet, Oxford Health Plans, and Mid Atlantic Medical Services) as comparables. UnitedHealth Group, Cigna, and Humana were not viewed as comparable due to their large size and national scope, PacifiCare Health Systems was not viewed as comparable due to its size and product mix, and Sierra Health Services was not viewed as comparable due to its small size. WellChoice, the BlueCross plan in the New York City area, was selected even though it has only recently traded as a public company and only a small percentage of the stock currently is available to trade. The WellChoice multiples are adjusted for the impact of premium taxes and corporate income taxes, as indicated in WellChoice filings. The median valuation metrics for this subset of companies are the starting point for our Public Market Valuation Methodology.

	LTM Operating Margins				Share Price/		Enterprise Value[1] /			
Company	**MLR[2]**	**EBITDA[3]**	**EBIT[4]**	**Net Inc.**	**LTM EPS**	**CY2002 EPS[5]**	**LTM Revenue**	**LTM EBITDA[3]**	**LTM EBIT[4]**	**CEL[6]**
Blue Cross Blue Shield										
Anthem	83.1%	8.1%	7.0%	3.9%	19.0x	15.3x	0.87x	10.8x	12.4x	1,616.16
Cobalt	87.2%	3.7%	2.8%	1.9%	21.6x	12.7x	0.40x	10.7x	14.3x	605.06
WellPoint Health Networks	81.3%	7.9%	7.3%	3.9%	16.5x	16.2x	0.72x	9.1x	10.0x	1,294.81
WellChoice	86.2%	NA	4.7%	2.5%	15.4x	12.5x	0.40x	NA	8.4x	577.31
BCBS Mean	**84.5%**	**6.6%**	**5.4%**	**3.0%**	**18.1x**	**14.2x**	**0.60x**	**10.2x**	**11.3x**	**1,023.34**
BCBS Median	**84.7%**	**7.9%**	**5.9%**	**3.2%**	**17.8x**	**14.0x**	**0.56x**	**10.7x**	**11.2x**	**949.94**
Mid Cap.										
Coventry Health Care	84.4%	6.6%	6.0%	3.7%	14.3x	12.2x	0.55x	8.3x	9.1x	1,251.57
Health Net	84.0%	5.0%	4.3%	2.5%	13.9x	12.7x	0.38x	7.6x	9.0x	985.21
Mid Atlantic Medical Services	85.5%	5.7%	5.2%	3.5%	18.4x	17.1x	0.75x	13.1x	14.4x	NA
Oxford Health Plans	79.0%	12.1%	11.7%	7.0%	10.0x	10.4x	0.69x	5.7x	5.9x	2,034.21
Mid Cap. Mean	**83.2%**	**7.4%**	**6.8%**	**4.2%**	**14.2x**	**13.1x**	**0.59x**	**8.7x**	**9.6x**	**1,423.66**
Mid Cap. Median	**84.2%**	**6.2%**	**5.6%**	**3.6%**	**14.1x**	**12.5x**	**0.62x**	**8.0x**	**9.1x**	**1,251.57**
Overall Mean	**83.8%**	**7.0%**	**6.1%**	**3.6%**	**16.2x**	**13.6x**	**0.60x**	**9.3x**	**10.4x**	**1,194.90**
Overall Median	**84.2%**	**6.6%**	**5.6%**	**3.6%**	**16.0x**	**12.7x**	**0.62x**	**9.1x**	**9.5x**	**1,251.57**
High	**87.2%**	**12.1%**	**11.7%**	**7.0%**	**21.6x**	**17.1x**	**0.87x**	**13.1x**	**14.4x**	**2,034.21**
Low	**79.0%**	**3.7%**	**2.8%**	**1.9%**	**10.0x**	**10.4x**	**0.38x**	**5.7x**	**5.9x**	**577.31**

(1) Enterprise value = market value of equity + debt (short and long-term) + minority interest.
(2) MLR represents a year-to-date ratio.
(3) EBITDA = Earnings before interest, taxes, depreciation, and amortization.
(4) EBIT = Earnings before interest and taxes.
(5) Source: First Call
(6) CEL (Commercially Equivalent Lives) was calculated using the following weightings: Risk =1.0x, Medicaid =0.5x, Medicare =2.0x, Non-risk =0.2x, FEP =0.2x.

In determining how to adjust the valuation metrics derived from the public company data, we considered the impact of two items:

Control Premium: Mergerstat, LP defines a control premium as "the additional consideration that an investor would pay over a marketable minority equity value (i.e.- current, publicly traded stock prices) in order to own a controlling interest in the common stock of a company." Mergerstat computes the control premium by comparing the share price offered for the target company's stock to what they call the "unaffected price". This is a pre-acquisition announcement price they say they select based on price and volume fluctuations during the period prior to the acquisition announcement. If no significant price and volume fluctuations occur, the price one day prior to the announcement is selected. The median control premiums per the Mergerstat Control Premium Study by quarter for all domestic transactions is as follows:

	Median Premium (including negative premiums)
2nd Quarter 2002	32.2%
1st Quarter 2002	47.0%
4th Quarter 2001	26.9%
3rd Quarter 2001	32.1%

The control premiums for the two sale transactions utilized as comparables in "Section 8 – Comparable Sale Transaction Methodology" herein, and which were public companies at the time of their acquisition, are as follows.

Announcement Date	Acquisition	Premium based on price			
		One day prior	One week prior	One month prior	Two months prior
04/29/02	Anthem acquisition of Trigon Healthcare	17.4%	24.2%	33.9%	37.9%
10/18/01	WellPoint acquisition of RightCHOICE	37.7%	45.15%	45.4%	27.3%

Based on the above, we believe that a control premium in the range of 30% - 35% is appropriate to apply to the public company multiples. Absent other factors, we would increase the valuation multiples derived from the selected comparable public companies by this amount to arrive at a valuation for CareFirst.

Single Company Discount: The public managed care companies have generally exhibited net income growth rates and revenue growth rates in excess of those achieved by CareFirst. CareFirst growth in net income is distorted by the impact of extraordinary items and discontinued operations. However, for the three-year period from 12/31/99 to 12/31/02, CareFirst compound annual revenue growth is estimated at 9.8%, and compound annual "income before taxes and extraordinary items" growth is estimated at 12.6%. Income before taxes in 2003 is projected to be 6.5% over 2002 levels. CareFirst net income growth and income before taxes compound annual growth for 1999-2003 is projected to be in the 9.5% - 11.0% range. Public managed care company historical and estimated net income growth rates are generally in the range of 15% per year. The First Call estimates of public managed care company five-year earnings growth average approximately 15% per year, compared to approximately 12% for 2003-2007 for CareFirst, as per the financial forecast in Section 9. We believe this difference requires that a discount be applied to the valuation multiples derived from the public companies in calculating the financial value of CareFirst. Further, as a private company, due diligence on CareFirst is more difficult than would be the case of the acquisition of a public company. We believe these CareFirst specific factors require that a discount of 10% be applied to the public company multiples.

The net impact of these adjustments (which are successively multiplied to the base valuation and not added to each other) is a net premium to the public company multiples in the range of 17% - 21.5%. We have applied a **net premium of 20%** to the public company valuation metrics.

Our valuation metrics for CareFirst and for each of the three affiliates start with multiples of last 12 months (to 9/30/02) cash flow measures – net income (adjusted for a 38% tax rate, and before extraordinary items and discontinued operations); earnings before interest and taxes ("EBIT"); and earnings before interest, taxes, depreciation and amortization ("EBITDA"). However, the new ownership arrangement for CareFirst BlueChoice, which prior to 10/1/02 is shown in GHMSI financial statements and from 10/1/02 forward is 40% owned by GHMSI and 60% owned by CFMI, requires that an adjustment be made to the relative contributions of GHMSI and CFMI to the total valuation of CareFirst. Therefore, in the pages which follow, in addition to showing net income, EBIT, and EBITDA multiples for the last 12 months by affiliate, we also show a pro forma "net income from continuing operations" percentage by affiliate for calendar year 2002 forecast recast as if the 40%/60% ownership arrangement was in place for the entire year. We use this proxy for the relative contributions of GHMSI and CFMI as a primary measure in determining the valuation allocation among GHMSI, CFMI, and BCBSD. Further, we use the 2003 forecast estimate of the relative contribution of each of the three affiliates to total 2003 forecast CareFirst net income as another factor in our valuation allocation.

Some important characteristics of each of the three affiliates are discussed in Section 6 – "Significant Valuation Factors and Competition". We note the following here:

- **GHMSI**: GHMSI has the greatest strategic value, given that its geography covers the national capital area, and its high market share. Although GHMSI is somewhat more dependent upon one contract (the FEP program), the risk of losing this account is, in our view, very small. Much of the somewhat lower contribution of GHMSI to CareFirst total net income, EBIT, and EBITDA projected going forward is due to the negotiated ownership arrangement of CFBC, and not due to fundamental changes in the underlying economics of the business.
- **CFMI**: CFMI has had negative operating income for each year between 1999-2002. The Maryland regulatory environment has been a contributing factor to this lack of operating profit, as well as the impact of medical group losses. However, CFMI has the dominant market share in Maryland, and CareFirst management is taking steps to deal with certain unprofitable operations. The CFMI 60% ownership of CFBC should also improve profitability in the future, as indicated by the 2003 forecast. Because of this, historical cash flow based valuation metrics do not fully capture the potential value of a plan of the size of CFMI. However, there is no compelling evidence today that the CFMI business can achieve profitability at the GHMSI or BCBSD levels.
- **BCBSD**: The BCBSD net income margin is both the highest of the three affiliates, and higher than for most public managed care companies. Market share is also strong. However, BCBSD is much smaller than GHMSI or CFMI, and, in our view, does not have the same strategic value within the CareFirst geography as do GHMSI and CFMI. The high net income margin and competitive environment make BCBSD more vulnerable.

The estimated present value of the NOLs/Tax Benefits are derived separately by affiliate, and are added to the valuations of CareFirst, GHMSI, CFMI, and BCBSD.

Further, in the summary and conclusions to this Section 7, we have adjusted the valuations of each affiliate based upon their relative amounts of excess net capital. For these purposes, excess net capital is defined as capital in excess of 500% of Risk Based Capital ("RBC") (250% of Company Action Level), using estimates as of 12/31/02. Our review of the public companies used as comparables indicates that, on average, these companies do not have capital in excess of 500% of Risk Based Capital. We add 50% of the amount of excess capital by affiliate to each affiliate's valuation range in the summary and conclusions to this section 7 to account for this.

Valuation ranges for CareFirst, Inc., GHMSI, CFMI, and BCBSD based upon the public market valuation methodology are shown on the following pages.

CareFirst, Inc.

CareFirst – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Company Median Range	CareFirst Amount	Implied Fair Market Value Range[2]
Equity Value / Net Income [1]	15.5x – 16.5x	72.600	1,125.300 – 1,197.900
Enterprise Value / EBIT	9.25x – 9.75x	117.100	1,083.175 – 1,141.725
Enterprise Value / EBITDA	8.75x – 9.25x	159.954	1,399.597 – 1,479.574

Notes:
(1) CareFirst net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
(2) CareFirst enterprise value equals CareFirst equity value due to the absence of long term debt.
(3) Commercially Equivalent Lives ("CEL") calculated as follows:

	Members	Weighting	CELs
Risk	986,900	1.0	986,900
FEP	529,500	0.2	105,900
Non-Risk	1,679,500	0.2	335,900
Totals	3,195,900		1,428,700

We do not utilize CEL multiples for performing managed care companies such as CareFirst, and show it for illustrative purposes only. Based on comparable company median of $1,251.57 (actual number, not millions) per CEL, this would equate to CareFirst, Inc. enterprise value of $2,288.74 (including the value of the net premium and the NOLs/Tax Benefits).

(4) Calendar year 2002 forecast numbers: Net Income - $81.089 (at 38% tax rate and before extraordinary items and discontinued operations); EBIT - $130.788; EBITDA - $174.858.

Based on the above, our preliminary valuation range (prior to excess capital adjustment) for CareFirst, Inc. is:

Unadjusted Valuation Range for CareFirst, Inc.	$1,150.000	$1,350.000
Plus net 20% Premium	230.000	270.000
Subtotal	1,380.000	1,620.000
Plus value of NOLs/Tax Benefits	143.000	143.000
Adjusted Valuation Range	$1,523.000	$1,763.000

Group Hospitalization and Medical Services, Inc.

GHMSI – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Company Median Range	GHMSI Amount	Implied Fair Market Value Range[2]	% of CareFirst Total
Equity Value / Net Income [1]	15.5x – 16.5x	47.430	735.165 – 782.595	65.3%
Enterprise Value / EBIT	9.25x – 9.75x	76.500	707.625 – 745.875	65.3%
Enterprise Value / EBITDA	8.75x – 9.25x	91.682	802.217 – 848.058	57.4%
Pro Forma Contribution to 2002 est. of "Income from Continuing Operations" [3]				61.1%
Percent Contribution to 2003 Forecast CareFirst Net Income				54.4%

Notes:
(1) CareFirst net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
(2) GHMSI enterprise value equals GHMSI equity value due to the absence of long term debt.
(3) Pro forma as if CareFirst BlueChoice ownership arrangement were in place for all of calendar year 2002
(4) Calendar year 2002 forecast numbers: Net Income - $51.296 (at 38% tax rate and before extraordinary items and discontinued operations); EBIT - $82.736; EBITDA - $99.033.

Based on the above, we assign a valuation percentage (before NOLs/Tax Benefits) of 59% of the CareFirst total to GHMSI.

CareFirst Valuation before NOLs/Tax Benefits	$1,380.000	$1,620.000
Times 59%	814.200	955.800
Plus Value of NOLs/Tax Benefits	53.000	53.000
Adjusted GHMSI Valuation Range	$ 867.200	$ 1,008.800

CareFirst of Maryland, Inc.

CFMI – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Company Median Range	CFMI Amount	Implied Fair Market Value Range[2]	% of CareFirst Total
Equity Value / Net Income [1]	15.5x – 16.5x	10.788	167.214 – 178.002	14.9%
Enterprise Value / EBIT	9.25x – 9.75x	17.400	160.950 – 169.650	14.9%
Enterprise Value / EBITDA	8.75x – 9.25x	40.901	357.884 – 378.334	25.6%
Pro Forma Contribution to 2002 est. of "Income from Continuing Operations" [3]				25.0%
Percent Contribution to 2003 Forecast CareFirst Net Income				31.1%

Notes:
(1) CareFirst net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
(2) CFMI enterprise value equals CFMI equity value due to the absence of long term debt.
(3) Pro forma as if CareFirst BlueChoice ownership arrangement were in place for all of calendar year 2002.
(4) Calendar year 2002 forecast numbers: Net Income - $18.164 (at 38% tax rate and before extraordinary items and discontinued operations); EBIT - $29.296; EBITDA - $52.133.

Based on the above, we assign a valuation percentage (before NOLs/Tax Benefits) of 26% of the CareFirst total to CFMI.

CareFirst Valuation before NOLs/Tax Benefits	$1,380.000	$1,620.000
Times 26%	358.800	421.200
Plus Value of NOLs/Tax Benefits	68.000	68.000
Adjusted CFMI Valuation Range	$ 426.800	$ 489.200

BlueCross BlueShield of Delaware

BCBSD – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Company Median Range	BCBSD Amount	Implied Fair Market Value Range[2]	% of CareFirst Total
Equity Value / Net Income [1]	15.5x – 16.5x	14.260	221.030 – 235.290	19.6%
Enterprise Value / EBIT	9.25x – 9.75x	23.000	212.750 – 224.250	19.6%
Enterprise Value / EBITDA	8.75x – 9.25x	27.170	237.737 – 251.322	17.0%
Pro Forma Contribution to 2002 est. of "Income from Continuing Operations"				13.9%
Percent Contribution to 2003 Forecast CareFirst Net Income				14.5%

Notes:
(1) CareFirst net income recalculated: before extraordinary items and discontinued operations, and using a 38% income tax rate.
(2) BCBSD enterprise value equals BCBSD equity value due to the absence of long term debt.
(3) Calendar year 2002 forecast numbers: Net Income - $11.631 (at 38% tax rate and before extraordinary items and discontinued operations); EBIT - $18.760; EBITDA - $23.696.

Based on the above, we assign a valuation percentage (before NOLs/Tax Benefits) of 15% of the CareFirst total to BCBSD.

CareFirst Valuation before NOLs/Tax Benefits	$1,380.000	$1,620.000
Times 15%	207.000	243.000
Plus Value of NOLs/Tax Benefits	22.000	22.000
Adjusted BCBSD Valuation Range	$ 229.000	$ 265.000

Summary and Conclusions – Public Market Valuation Multiples

In concluding a valuation range for the public market valuation methodology, we considered, among other factors, the following:

- GHMSI has historically (1999-2001) accounted for over 65% of CareFirst, Inc. income before taxes, income from continuing operations, and net income – at times well over 65% - 70%. However, due to continued strong performance at BCBSD and the 60% CFMI - 40% GHMSI split of CFBC ownership, this relative contribution of GHMSI to CareFirst is not likely to be sustainable. However, every measure we have reviewed indicates that GHMSI will account for over 50% of CareFirst, Inc.'s profitability and cash flow.
- BCBSD net income margin for 2001 and 2002, at over 5%, is at the high end of the range for managed care companies. CareFirst projects a 4.4% net income margin for BCBSD for 2003. Our valuation gives credit for this level of profitability, but recognizes that margin contraction due to competition is more likely than margin expansion, as well as other factors previously mentioned herein.
- Rate regulation and other regulatory factors such as mandates make it difficult for the Maryland business to achieve the same level of profitability as the D.C. and Delaware businesses. However, the aforementioned ownership arrangement of CFBC and other actions in process should allow greater profitability for CFMI going forward, as indicated in our discounted cash flow analysis in Section 9.
- The 2003 budget utilized by Cain Brothers in its analysis (which is used in the discounted cash flow analysis in section 9 and is contained within the forecasted financial information in Appendix C) projects net income from continuing operations of $111.1 million and net income of $101.1 million. Of these amounts, approximately 54.5% is expected to come from GHMSI, approximately 31% from CFMI, and approximately 14.5% from BCBSD.
- Based on projected capital as of 12/31/02 as provided by management, estimates are that assuming required capital equals 500% of Risk Based Capital requirements, excess capital for CareFirst would total approximately $103.5 million, split among GHMSI ($43.5 million), BCBSD ($68 million), and CFMI ($8 million **deficit**) (this includes a split of CFBC's excess capital between CFMI and GHMSI). This excess capital indicates that an adjustment be made to: (1) the overall valuation of CareFirst to the extent that CareFirst excess capital exceeds that of the comparable public companies, and (2) to the relative valuations of each of the three affiliates. We have made these adjustments for excess capital, as noted in the summary on the following page.
- We have used at 38% tax rate in computing last 12 months net income for CareFirst, and not the AMT rate of approximately 20% that CareFirst currently pays. To that we have added the present value of CareFirst AMT credits and Net Operating Loss ("NOL") carry-forwards.
- We have not adjusted historical net income, EBIT, or EBITDA for CareFirst payment of premium tax equivalents in Maryland beginning 4/1/03. CareFirst will also lose its current 4% hospital payment rate differential SAAC discount as of 7/1/03. These two new payments are offset by: (1) the end of CareFirst participation in and losses for the Maryland open enrollment program as of 7/1/03 (retroactive to 4/1/03), (2) the end of participation in and losses for the Senior Prescription Drug Program, and (3) the ability to pass along the end of the SAAC discount to risk and non-risk groups. CareFirst estimates that the net effect of all these factors in 2003 is cost neutral, and the 2003 forecast reflects nine months of the new requirements, including a significant line item representing new MHIP taxes. In our discounted cash flow analysis in Section 9, we have built in adjustments for a full year of the new requirements in 2004 and for slower enrollment growth to account for these changes.

All of these factors have also been considered in the Comparable Sale Transaction Methodology, found in Section 8.

In our analysis, we have placed reliance on income and cash flow multiples and not revenue and enrollee multiples, as we believe income related valuation is more appropriate for a company such as CareFirst (as contrasted with a distressed situation where income and cash flow multiples do not take into account the economic potential of the business).

Public Market Valuation Methodology – Valuation Range – Before Excess Capital Adjustment by Affiliate
(dollars in millions)

CareFirst, Inc.	$1,523.000	$1,763.000
Group Hospitalization and Medical Services, Inc.	867.200	1,008.800
CareFirst of Maryland, Inc.	426.800	489.200
BlueCross BlueShield of Delaware	229.000	265.000

Public Market Valuation Methodology – Valuation Range – After Excess Capital Adjustment by Affiliate(1)
(dollars in millions)

CareFirst, Inc.	$1,574.750	$1,814.750
Group Hospitalization and Medical Services, Inc.	888.950	1,030.550
CareFirst of Maryland, Inc.	422.800	485.200
BlueCross BlueShield of Delaware	263.000	299.000

(1) Calculated by adding/(subtracting) 50% of estimated $103.5 million of excess reserves to CareFirst and by affiliate (which are $43.5 million for GHMSI (so $21.75 million is added); $8 million **deficit** for CFMI (so $4 million is subtracted), and $68 million for BCBSD (so $34 million is added)) to the totals shown in “Valuation Range – Before Excess Capital Adjustment by Affiliate” shown above.

Comparable Sale Transaction Methodology

The Comparable Sale Transaction Methodology attempts to determine a valuation range for CareFirst based upon completed merger and acquisition transactions involving comparable companies. While this valuation methodology is similar to the Pubic Market Valuation Methodology in its attempt to draw upon a universe of comparable companies in order to quantify certain valuation statistics to be applied in determining value, this methodology necessarily addresses valuation in a more *pragmatic* fashion by detailing those premiums and valuation multiples actually paid to acquire all or a fixed percentage of the assets and liabilities of selected comparable companies at a recent point in time. As a result, consideration must be given to general market conditions at that given point in time when generating a current estimation of value for the subject company under this methodology.

There have been a number of acquisitions and/or mergers of managed care companies during the recent past in conjunction with the overall consolidation of the health care industry. These transactions have included mergers between various types of managed care companies including for-profit and not-for-profit plans, investor-owned and provider-owned plans, as well as large national companies and smaller regional plans. We reviewed many of the recent transactions and identified three BlueCross BlueShield transactions with similar characteristics to the proposed acquisition of CareFirst.

For purposes of analyzing the comparable transactions included in this valuation analysis, we used the most recent financial results available at the time that the terms of the transactions were negotiated. As a result, in cases where the financial performance deteriorated between the negotiation date and the closing date, multiples would be higher as of the closing date than if the financial results at the time that the transactions were negotiated had been used. Likewise, in cases where the financial performance improved between the negotiation date and the closing date, multiples as of the closing date would be lower than if the financial results at the time that the transactions were negotiated had been used.

The three most comparable transactions we selected were: the acquisition of Cerulean by WellPoint Health Networks (announced originally on July 9, 1998 and closed on March 15, 2001), the acquisition of RightCHOICE by WellPoint Health Networks (announced on October 18, 2001 and closed on January 29, 2002), and the acquisition of Trigon Healthcare by Anthem, Inc. (announced on April 29, 2002 and closed on July 31, 2002).

While Cain Brothers considers the selected transactions to be comparable, in each case variations exist between the companies involved in these transactions and CareFirst. Specifically, the RightCHOICE and Trigon acquisitions differed from CareFirst in the following respects:

- Both RightCHOICE and Trigon were public companies when the acquisition was announced, providing opportunity for better due diligence and a shorter regulatory time frame.
- Net income margins at both RightCHOICE and Trigon were significantly higher than those for CareFirst. In the two years prior to the transactions being announced, RightCHOICE net income margin was in the range of 3% - 4%, while Trigon net income margin was in the range of 4%. CareFirst net income margin for the last 12 months ending 9/30/2002 was 2.45%, but only 1.74% assuming a 38% tax rate.
- Revenue growth over the years prior to announcement was in the range of 10% for both RightCHOICE and Trigon, similar to the historical revenue growth for CareFirst.
- Net income growth for both RightCHOICE and Trigon (as restated) are both higher than for CareFirst, as shown on the following page.

The chart which follows shows historical RightCHOICE and Trigon revenue, EBITDA, EBIT, and net income, taken from public filings made by the companies with the Securities and Exchange Commission, except where otherwise indicated.

Income Growth Rates

RightCHOICE	1997	1998	1999	2000	LTM 9/30/01
Revenue	752,595	879,715	937,365	1,078,259	1,166,628
EBIT	(27,816)	14,269	42,811	71,090	95,829
EBITDA	(4,708)	36,399	62,839	91,646	117,927
Net Income	(4,347)	5,708	19,897	35,526	57,196

Trigon(1)	1997(2)	1998	1999	2000	2001
Revenue	2,062,472	2,236,352	2,346,428	2,611,595	2,974,967
EBIT	149,995	194,603	39,877	183,003	188,433
EBITDA	170,237	215,863	58,532	198,288	211,852
Net Income	78,982	123,572	20,463	112,009	116,060

(1) In addition to actual numbers shown, because of Trigon's uneven investment performance and large capital losses, results were recalculated to show a normalized investment return of 5.5% on all cash and investments. The results show annualized growth rates of: Revenue 11%, EBIT 26%, EBITDA 23%, Net Income 33%.
(2) Net income stated post demutualization and IPO.

Because of the differences described above, we do not view the RightCHOICE and Trigon acquisitions as exact comparables for CareFirst. However, in their totality, we believe they are still highly comparable, indicative of trends in BlueCross BlueShield acquisitions, and must be considered in a valuation of CareFirst. Because of the public company status, higher net income margins, and higher net income growth, we are applying a 10% discount to the RightCHOICE and Trigon multiples in deriving a value for CareFirst under the Comparable Sale Transaction Methodology. Our valuation metrics for the Comparable Sale Transaction Methodology therefore is based on the median of: (1) 100% of the Cerulean multiples, (2) 90% of the RightCHOICE multiples, and (3) 90% of the Trigon multiples.

This adjustment is comparable to the single company discount utilized in the Public Market Valuation Methodology in Section 7. Because each of the three transactions selected as comparables involve acquisition of 100% of the stock of the selling company, no control premium is applied.

As in the Public Market Valuation Methodology, a valuation for CareFirst as a whole is derived, then a percentage determined by affiliate (the same as in the Public Market Valuation Methodology) is applied to the pre- NOL/Tax Benefit Valuation of CareFirst to derive affiliate valuations. Each individual affiliate NOL/Tax Benefit is then added to derive an adjusted valuation range by affiliate. We have confirmed that neither Cerulean nor RightCHOICE had NOLs/Tax benefits at the time of their acquisition, and a review of Trigon financial information indicates that they had no comparable NOLs/tax benefits at the time of acquisition. Therefore, adding the NOLs/Tax benefits to the CareFirst valuation is appropriate in the comparable sale transaction methodology.

As in the Public Market Valuation Methodology, a further adjustment is made for excess capital by affiliate. However, because our current review indicates that the CareFirst capital level does not exceed that for Cerulean, RightCHOICE, and Trigon, we have not added excess capital to the overall valuation of CareFirst, but have taken it into consideration in our relative valuations of each of the three affiliates, as described at the end of this Section 8.

Comparable Transactions

Transaction Dates					Enterprise Value as a Multiple of:				Equity Value/
Completed	Announced	Acquiror/Target	Equity Value(1)	Enterprise Value(2)	CEL	Revenue	EBIT	EBITDA	Net Income
07/31/02	04/29/02	Anthem/Trigon	$3,763,393	$4,063,114	2,840x	1.30x	16.38x	14.90x	26.76x
01/29/02	10/18/01	WellPoint/RightChoice	$1,383,096	$1,393,556	1,460x	1.19x	14.54x	11.82x	24.18x
03/15/01	07/09/98	WellPoint/Cerulean	$700,000	$700,000	694x	0.36x	11.25x	9.41x	18.27x

		Equity Value	Enterprise Value	CEL	Revenue	EBIT	EBITDA	Net Income
	Minimum	**$ 700,000**	**$ 700,000**	**694x**	**0.36x**	**11.25x**	**9.41x**	**18.27x**
	Maximum	**$ 3,763,393**	**$ 4,063,114**	**2,840x**	**1.30x**	**16.38x**	**14.90x**	**26.76x**
	Mean	**$ 1,948,830**	**$ 2,052,223**	**1,665x**	**0.95x**	**14.06x**	**12.04x**	**23.07x**
	Median	**$ 1,383,096**	**$ 1,393,556**	**1,460x**	**1.19x**	**14.54x**	**11.82x**	**24.18x**
(3)	**Minimum**	**$ 700,000**	**$ 700,000**	**694x**	**0.36x**	**11.25x**	**9.41x**	**18.27x**
	Maximum	**$ 3,387,053**	**$ 3,656,802**	**2,556x**	**1.17x**	**14.74x**	**13.41x**	**24.08x**
	Mean	**$ 1,777,280**	**$ 1,870,334**	**1,521x**	**0.87x**	**13.03x**	**11.15x**	**21.37x**
	Median	**$ 1,244,787**	**$ 1,254,201**	**1,314x**	**1.08x**	**13.09x**	**10.64x**	**21.76x**

(1) Equity value is the public price of equity.
(2) Enterprise value is equity value plus short and long-term debt.
(3) Recalculated transaction multiples using the following: 100% of Cerulean multiples
90% of RightCHOICE multiples (e.g. Net Income multiple of 24.18 x 90% = 21.76)
90% of Trigon multiples

Adjustments

Cerulean
- Financials adjusted to reflect a 38% tax rate, consistent with a for-profit entity upon conversion.
- Legal fees relating to the merger were excluded.

RightCHOICE
- Purchase price reflects WellPoint stock price as of 01/29/02 close (Closing date of transaction).
- Reorganization expenses and gains on the sale of property were excluded.

Trigon
- Investment income restated to reflect a 5.5% return was calculated and tax affected to reflect said program.
- Gains on sale of operations and write-down of software were excluded.

CareFirst, Inc.

CareFirst – Last 12 Months
(dollars in millionss)

Multiple Description	Comparable Transaction Median(2) Range	CareFirst Amount	Implied Fair Market Value Range(3)
Equity Value / Net Income (1)	21.00x – 22.00x	72.600	1,524.600 – 1,597.200
Enterprise Value / EBIT	12.75x – 13.25x	117.100	1,493.025 – 1,551.575
Enterprise Value / EBITDA	10.25x – 10.75x	159.954	1,639.528 – 1,719.505

Notes:
1) Net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
2) Multiples are based on 100% of Cerulean multiples, 90% of RightCHOICE multiples, and 90% of Trigon multiples.
3) CareFirst enterprise value equals CareFirst equity value due to the absence of long-term debt.

Based on the above, our preliminary valuation range (prior to excess capital adjustment) for CareFirst, Inc. is:

CareFirst Valuation before NOLs/Tax Benefits	$1,525.000	$1,675.000
Plus Value of NOLs/Tax Benefits	143.000	143.000
Adjusted CareFirst Valuation Range	$1,668.000	$1,818.000

Group Hospitalization and Medical Services, Inc.

GHMSI – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Transaction Median[2] Range	GHMSI Amount	Implied Fair Market Value Range[3]	% of CareFirst Total
Equity Value / Net Income [1]	21.00x – 22.00x	47.430	996.030 – 1,043.460	65.3%
Enterprise Value / EBIT	12.75x – 13.25x	76.500	975.375 – 1,013.625	65.3%
Enterprise Value / EBITDA	10.25x – 10.75x	91.682	939.740 – 985.581	57.4%
Pro Forma Contribution to 2002 estimate of "Income from Continuing Operations" [4]				61.1%
Percent Contribution to 2003 Forecast CareFirst Net Income				54.4%

Notes:
1) Net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
2) Multiples are based on 100% of Cerulean multiples, 90% of RightCHOICE multiples, and 90% of Trigon multiples.
3) GHMSI enterprise value equals GHMSI equity value due to the absence of long-term debt.
4) Pro forma as if CareFirst BlueChoice ownership arrangement were in place for all of calendar year 2002.

Based on the above, and consistent with the public market valuation methodology, we assign a valuation percentage (before NOLs/Tax Benefits) of 59% of the CareFirst total to GHMSI.

CareFirst Valuation before NOLs/Tax Benefits	$1,525.000	$1,675.000
Times 59%	899.750	988.250
Plus Value of NOLs/Tax Benefits	53.000	53.000
Adjusted GHMSI Valuation Range	$ 952.750	$1,041.250

CareFirst of Maryland, Inc.

CFMI – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Transaction Median[2] Range	CFMI Amount	Implied Fair Market Value Range[3]	% of CareFirst Total
Equity Value / Net Income [1]	21.00x – 22.00x	10.788	226.548 – 237.336	14.9%
Enterprise Value / EBIT	12.75x – 13.25x	17.400	221.850 – 230.550	14.9%
Enterprise Value / EBITDA	10.25x – 10.75x	40.901	419.235 – 439.686	25.6%
Pro forma contribution to 2002 estimate of "Income from Continuing Operations" [4]				25.0%
Percent Contribution to 2003 Forecast CareFirst Net Income				31.1%

Notes:
1) Net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
2) Multiples are based on 100% of Cerulean multiples, 90% of RightCHOICE multiples, and 90% of Trigon multiples.
3) CFMI enterprise value equals CFMI equity value due to the absence of long-term debt.
4) Pro forma as if CareFirst BlueChoice ownership arrangement were in place for all of calendar year 2002.

Based on the above, and consistent with the public market valuation methodology, we assign a valuation percentage (before NOLs/Tax Benefits) of 26% of the CareFirst total to CFMI.

CareFirst Valuation before NOLs/Tax Benefits	$1,525.000	$1,675.000
Times 26%	396.500	435.500
Plus Value of NOLs/Tax Benefits	68.000	68.000
Adjusted CFMI Valuation Range	$ 464.500	$ 503.500

BlueCross BlueShield of Delaware

BCBSD – Last 12 Months
(dollars in millions)

Multiple Description	Comparable Company Median Range	BCBSD Amount	Implied Fair Market Value Range[3]	% of CareFirst Total
Equity Value / Net Income [1]	21.00x – 22.00x	14.260	299.460 – 313.720	19.6%
Enterprise Value / EBIT	12.75x – 13.25x	23.000	293.250 – 304.750	19.6%
Enterprise Value / EBITDA	10.25x – 10.75x	27.170	278.493 – 292.078	17.0%
Pro forma contribution to 2002 estimate of "Income from Continuing Operations"				13.9%
Percent Contribution to 2003 Forecast CareFirst Net Income				14.5%

Notes:
1) Net income recalculated: (1) before extraordinary items and discontinued operations, and (2) using a 38% income tax rate.
2) Multiples are based on 100% of Cerulean multiples, 90% of RightCHOICE multiples, and 90% of Trigon multiples.
3) BCBSD enterprise value equals BCBSD equity value due to the absence of long-term debt.

Based on the above, and consistent with the public market valuation methodology, we assign a valuation percentage (before NOLs/Tax Benefits) of 15% of the CareFirst total to BCBSD.

CareFirst Valuation before NOLs/Tax Benefits	$1,525.000	$1,675.000
Times 15%	228.750	251.250
Plus Value of NOLs/Tax Benefits	22.000	22.000
Adjusted BCBSD Valuation Range	$ 250.750	$ 273.250

Comparable Sale Transaction Methodology – Valuation Range – Before Excess Capital Adjustment

(dollars in millions)

CareFirst, Inc.	$1,668.000	$1,818.000
Group Hospitalization and Medical Services, Inc.	952.750	1,041.250
CareFirst of Maryland, Inc.	464.500	503.500
BlueCross BlueShield of Delaware	250.750	273.250

Comparable Sale Transaction Methodology – Valuation Range – After Excess Capital Adjustment[1]

(dollars in millions)

CareFirst, Inc.	$1,668.000	$1,818.000
Group Hospitalization and Medical Services, Inc.	935.185	1,023.685
CareFirst of Maryland, Inc.	429.590	468.590
BlueCross BlueShield of Delaware	303.225	325.725

(1) Calculated as follows: (1) 100% of $103.5 million of excess reserves subtracted from CareFirst valuation before NOLs/Tax Benefits; (2) resulting range of value allocated 59% to GHMSI, 26% to CFMI, and 15% to BCBSD; (3) value of NOLs/Tax Benefits added by affiliate; and (4) excess reserves added/(subtracted) by affiliate - $43.5 million for GHMSI; $8 million **deficit** for CFMI, and $68 million for BCBSD.

Discounted Cash Flow Valuation Methodology

Introduction and Approach

The third standard method for valuing an enterprise is discounted cash flow. This approach starts with a detailed forecast of CareFirst's future financial performance, derives estimated future cash flows, and then discounts the dollar value of those cash flows to an equivalent present value. In this case, we assume that CareFirst continues to be operated as a non-profit.

This option could be considered the "Keep" scenario. New, non-profit community foundations, by jurisdiction, could be established and then funded by "dividending future excess reserves" from each regulated CareFirst entity to each affiliated foundation. Generally, there are regulations governing dividends from regulated insurance entities, and such dividends are restricted to a formula or are subject to approval by the insurance commissioner. For our purposes, we are assuming that as long as reserves are maintained at an adequate level (approximately 500% of risk based capital as estimated in our forecast), the commissioners will be able and willing to dividend excess cash to the foundations. Also, any cash above this level on the first day of the forecast period is assumed to be dividended to the respective foundations in 2003 and added to the valuation estimate.

Summary Results

A detailed list of forecast assumptions is contained in Appendix C. Based on the forecasts, combined CareFirst and individual entity cash flows can be derived and valued. These projections have been prepared by Cain Brothers based upon assumptions we believe to be reasonable. CareFirst has reviewed the projection assumptions for reasonableness only. All projections involve subjective judgement, and Cain Brothers makes no representation regarding the achievability of the projections, which are provided for valuation purposes only. The combined forecast and valuation is shown on the following page:

CareFirst, Inc.
Discounted Cash Flow Analysis

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
EBIT (including Bus comb)	$66,527	$90,165	$104,491	$117,331	$130,101
Plus int income on stat reserves	60,405	65,774	74,322	82,237	89,654
EBIT including interest income	126,931	155,939	178,813	199,568	219,755
Less income taxes	(27,497)	(33,501)	(38,609)	(43,267)	(47,805)
Debt-free earnings	99,435	122,438	140,204	156,300	171,950
Plus D&A	52,629	57,629	62,629	67,629	72,629
Less capex	(72,629)	(77,629)	(82,629)	(87,629)	(92,629)
Less decr/(incr) in stat reserves					
net of working capital changes	34,469 (b)	(64,542)	(62,153)	(57,296)	(52,817)
Free cash flow (a)	$113,903	$37,896	$58,051	$79,005	$99,132
Terminal year free cash flow					$99,132
Terminal year multiple, assuming growth in perpetuity of 5.93%					21.88x (c)
Terminal value calculation					$2,168,808
Cash flow stream used for DCF	$113,903	$37,896	$58,051	$79,005	$2,267,941
Discount factor	1.053	1.163	1.285	1.420	1.569
Present value of cash flows	$108,222	$32,584	$45,171	$55,634	$1,445,308
		DCF @ 10.5% discount rate			$1,686,919

(a) Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity.
(b) Includes $103.5 million (net) excess reserve distribution in 2003 to equal 500% of RBC.
(c) Terminal Value as a multiple of EBITDA (w/income on stat reserves) = 7.42x.

As shown on the above, at a 10.5% discount rate, using an average perpetuity growth rate of approximately 6% (for years beyond the projection period), the total value of CareFirst is $1.687 billion. The implied EBITDA multiple for the terminal year value is 7.42x, and the implied net income multiple is 12.6x, below public company and transaction comparables.

We also looked at a range of perpetuity factors, (5% to 6% for GHMSI, 6.5% to 7.5% for CFMI, 5.75% to 6.75% for CFBC, and 4.5% to 5.5% for BCBSD). The range in valuation for the combined entity was $1.549 to $1.862 billion, implying overall perpetuity factors from approximately 5.4% to 6.4%, EBITDA multiples from approximately 6.7x to 8.4x, and net income multiples from approximately 11.3x to 14.2x. Our weighted average cost of capital ("WACC") calculation, which is the basis for our choice of discount rate, is found in Appendix B.

Group Hospitalization and Medical Services, Inc.
Discounted Cash Flow Analysis

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
			(Dollar amounts in thousands)		
EBIT (including Bus comb)	$34,654	$42,995	$48,266	$52,488	$56,444
Plus int income on stat reserves	21,388	26,983	30,310	33,287	36,129
EBIT including interest income	56,042	69,978	78,576	85,775	92,573
Less income taxes	(11,786)	(14,415)	(16,187)	(17,670)	(19,070)
Debt-free earnings	44,256	55,563	62,389	68,105	73,503
Plus D&A	16,262	17,807	19,352	20,897	22,442
Less capex	(22,442)	(23,987)	(25,532)	(27,077)	(28,622)
Less decr/(incr) in stat reserves					
net of working capital changes	(653) (b)	(25,492)	(24,120)	(21,368)	(20,202)
Free cash flow(a)	$37,423	$23,890	$32,089	$40,557	$47,121
Terminal year free cash flow					$47,121
Terminal year multiple, assuming growth in perpetuity of 5.50%					20.00x (c)
Terminal value calculation					$942,410
Cash flow stream used for DCF	$37,423	$23,890	$32,089	$40,557	$989,531
Discount factor	1.053	1.163	1.285	1.420	1.569
Present value of cash flows	$35,557	$20,542	$24,970	$28,560	$630,606

DCF @ 10.5% discount rate	$740,234
Plus 40% interest in CFBC HMO	154,643
Total	$894,877

(a) Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity.
(b) Includes $36.1 million (net) excess reserve distribution in 2003 to equal 500% of RBC.
(c) Terminal Value as a multiple of EBITDA (w/income on stat reserves) = 8.19x.

GHMSI is valued at $740 million under these assumptions. An assumed perpetuity growth rate of 5.5% was used in calculating the terminal value which implies a terminal value EBITDA multiple of 8.19x. The valuation range calculated for GHMSI, assuming a 10.5% discount rate and perpetuity increases from 5% to 6%, is from $686 million to $807 million. GHMSI benefits from it beginning high underwriting margin and its relatively stable profitability history, but suffers from the slower cash flow growth rate assumed in the projections. Including GHMSI's 40% ownership in CFBC, GHMSI is valued at $895 million under these assumptions.

CareFirst of Maryland, Inc.
Discounted Cash Flow Analysis

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
EBIT (including Bus comb)	($4,027)	$6,993	$11,797	$17,084	$22,275
Plus int income on stat reserves	23,984	23,447	26,233	28,915	31,467
EBIT including interest income	19,957	30,440	38,029	45,999	53,742
Less income taxes	(3,226)	(5,386)	(7,126)	(8,945)	(10,717)
Debt-free earnings	16,731	25,054	30,903	37,054	43,025
Plus D&A	22,473	24,608	26,743	28,878	31,013
Less capex	(31,013)	(33,148)	(35,283)	(37,418)	(39,553)
Less decr/(incr) in stat reserves net of working capital changes	(28,894) (b)	(18,570)	(19,794)	(19,425)	(18,338)
Free cash flow(a)	($20,703)	($2,055)	$2,570	$9,089	$16,147
Terminal year free cash flow					$16,147
Terminal year multiple, assuming growth in perpetuity of 7.00%					28.57x (c)
Terminal value calculation					$461,355
Cash flow stream used for DCF	($20,703)	($2,055)	$2,570	$9,089	$477,503
Discount factor	1.053	1.163	1.285	1.420	1.569
Present value of cash flows	($19,671)	($1,767)	$1,999	$6,401	$304,302

DCF @ 10.5% discount rate	$291,264
Plus 60% interest in CFBC HMO	231,965
Total	$523,229

(a) Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity.
(b) Includes -$19.1 million (net) excess reserve distribution in 2003 to equal 500% of RBC.
(c) Terminal Value as a multiple of EBITDA (w/income on stat reserves) = 5.44x.

The estimated value for CFMI is $291 million. An assumed perpetuity growth rate of 7% was used in calculating the terminal value. The derived terminal value EBITDA multiple is 5.44x, lower than the other entities due to capital expenditures and statutory reserves having relatively more impact on CFMI's cash flow than for the other entities. The valuation range based on a 10.5% discount rate and perpetuity factors ranging from 6.5% to 7.5% is approximately $255 million to $340 million. Including CFMI's 60% ownership in CFBC raises CFMI's valuation to $523 million in this base case.

CareFirst of Maryland's value is depressed by it low underwriting margin, a slower increase in free cash flow in its base business (i.e., without the medical group subsidy effect), lower profitability and its relatively low reserves. While the forecast increases the underwriting margin over $20 million during the projection period (the most aggressive growth assumption of any of the four entities), the low base prevents CFMI from being as profitable as the other affiliates in this forecast.

Blue Cross and Blue Shield of Delaware, Inc.
Discounted Cash Flow Analysis

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
EBIT (including Bus comb)	$11,200	$11,890	$13,696	$14,729	$16,041
Plus int income on stat reserves	5,676	5,282	6,445	7,517	8,419
EBIT including interest income	16,875	17,172	20,141	22,246	24,460
Less income taxes	(3,459)	(3,538)	(4,149)	(4,583)	(5,039)
Debt-free earnings	13,416	13,635	15,992	17,664	19,421
Plus D&A	5,894	6,454	7,014	7,574	8,134
Less capex	(8,134)	(8,694)	(9,254)	(9,814)	(10,374)
Less decr/(incr) in stat reserves					
net of working capital changes	60,474 (b)	(5,086)	(4,669)	(3,983)	(2,440)
Free cash flow(a)	$71,649	$6,308	$9,083	$11,441	$14,740
Terminal year free cash flow					$14,740
Terminal year multiple, assuming growth in perpetuity of 5.00%					18.18x (c)
Terminal value calculation					$268,008
Cash flow stream used for DCF	$71,649	$6,308	$9,083	$11,441	$282,749
Discount factor	1.053	1.163	1.285	1.420	1.569
Present value of cash flows	$68,075	$5,424	$7,068	$8,057	$180,189
		DCF @ 10.5% discount rate			$268,813

(a) Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity.
(b) Includes $68.0 million (net) excess reserve distribution in 2003 to equal 500% of RBC.
(c) Terminal Value as a multiple of EBITDA (w/income on stat reserves) = 8.22x.

The discounted cash flow analysis indicates a value of $269 million. An assumed perpetuity growth rate of 5% was used in calculating the terminal value, implying a terminal value EBITDA multiple of 8.22x. Valuations ranged from $255 million to $286 million based on perpetuity rates from 4.5% to 5.5%. BCBSD benefits from its relatively high underwriting margins and investment reserves, but suffers from its assumed slower growth in the forecast, and its smaller size.

Finally, a summary discounted cash flow and valuation can be shown for CareFirst BlueChoice, the HMO owned 60% by CFMI and 40% by GHMSI:

CareFirst Blue Choice HMO
Discounted Cash Flow Analysis

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
EBIT (including Bus comb)	$24,700	$28,287	$30,732	$33,030	$35,341
Plus int income on stat reserves	9,357	10,062	11,335	12,517	13,640
EBIT including interest income	34,057	38,349	42,067	45,547	48,981
Less income taxes	(9,025)	(10,162)	(11,148)	(12,070)	(12,980)
Debt-free earnings	25,032	28,186	30,919	33,477	36,001
Plus D&A	8,000	8,760	9,520	10,280	11,040
Less capex	(11,040)	(11,800)	(12,560)	(13,320)	(14,080)
Less decr/(incr) in stat reserves					
net of working capital changes	3,542 (b)	(15,394)	(13,570)	(12,520)	(11,837)
Free cash flow(a)	$25,534	$9,752	$14,309	$17,917	$21,124
Terminal year free cash flow					$21,124
Terminal year multiple, assuming growth in perpetuity of 6.25%					23.53x (c)
Terminal value calculation					$497,035
Cash flow stream used for DCF	$25,534	$9,752	$14,309	$17,917	$518,159
Discount factor	1.053	1.163	1.285	1.420	1.569
Present value of cash flows	$24,260	$8,385	$11,135	$12,617	$330,211
		DCF @ 10.5% discount rate			$386,608

(a) Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity.
(b) Includes $18.5 million (net) excess reserve distribution in 2003 to equal 500% of RBC.
(c) Terminal Value as a multiple of EBITDA (w/income on stat reserves) = 8.28x.

The analysis indicates a valuation of $386 million. An assumed perpetuity growth rate of 6.25% was used in calculating the terminal value with an implied terminal value EBITDA multiple of 8.28x (approximately the same as GHMSI and BCBSD). Valuations ranged from $353 million to $429 million based on perpetuity growth rates from 5.75% to 6.75%. Blue Choice has good market potential, stable growth, adequate reserves, and lower allocated capital requirements.

Given the joint ownership of CareFirst BlueChoice, the total value of CFMI, GHMSI and BCBSD can be derived as follows ($ millions):

CAREFIRST

Discounted Cash Flow Valuation Summary by Entity

	Individual Value			Total Value[c]			% Allocation of Total Value[c]		
	Base	Value Range[b]		Base	Value Range[b]		Base	Value Range[b]	
Entity	Case[a]	Low	High	Case[a]	Low	High	Case[a]	Low	High
				Dollar amounts in millions					
GHMSI	$740	$686	$807	$895	$827	$979	53.0%	53.4%	52.6%
CFMI	291	255	340	523	466	598	31.0%	30.1%	32.1%
BCBSD	269	255	286	269	255	286	15.9%	16.4%	15.4%
CFBC	387	353	429	--	--	--	0.0%	0.0%	0.0%
Total	$1,687	$1,548	$1,862	$1,687	$1,548	$1,862	100.0%	100.0%	100.0%

a) Assumes discount rate of 10.5% and perpetuity growth rates of 7.0% for CFMI, 5.5% for GHMSI, 5.0% for BCBSD, and 6.25% for CFBC.
b) Assumes discount rate of 10.5% with perpetuity growth rates of 6.50% for CFMI, 5.00% for GHMSI, 4.50% for BCBSD, and 5.75% for CFBC for the low end; and a discount rate of 10.5% with perpetuity growth rates of 7.50% for CFMI, 6.00% for GHMSI, 5.50% for BCBSD, and 6.75% for CFBC for the high end.
c) Splits CFBC value 60% to CFMI and 40% to GHMSI.

WellPoint Acquisition Perspective Analysis
Updated to January 2003

Besides the three standard valuation approaches used to value CareFirst, an updated analysis of WellPoint's Project Congress valuation was completed in order to provide an indication of what would be a fair purchase price from their perspective. The analysis took as a starting point Banc of America Securities' report to the WellPoint Board, dated November 19, 2001. In particular, the "Water and River Buys Congress" scenario (i.e., WellPoint and RightChoice buy CareFirst) was considered and updated. The estimated Unlevered Free Cash Flow contained in the report was adjusted for the following:

1. CareFirst's actual 2002 operating performance estimate compared to original projections.
2. An assumption that a competitive bidding and regulatory process for the CareFirst sale would result in "extraction" of 50% of WellPoint's identified synergies (but 100% of WellPoint's identified transaction and other upfront costs are included); in other words, WellPoint would need to pay 50% of the present value of it's operating and capital synergies in additional purchase consideration, retaining 50% of the synergies for upside/accretive value.
3. Changes in the value of the NOLs and AMT credits resulting from CareFirst's 2002 performance.
4. Changes in the CareFirst pension fund asset value, due to the declining stock market, as reflected in future earnings and contributions.

In addition, an adjustment for changes in general financial market conditions resulted in a lower assumed weighted average cost of capital and cash flow discount rate. (It should be noted that WellPoint management has objected to changing their cost of capital and have stated that they have not adjusted their discount rate from the mid-point 12.5% they used in their analysis.) Our analysis, using current market interests rates, market premiums and HMO stock betas, indicates a discount rate of 10.5% would be appropriate. We used 7.0x and 8.0x EBITDA multiples in our terminal value calculations, below the amounts derived from comparable companies and transaction comparables. These levels of terminal value EBITDA's imply perpetuity growth factors in the 5.4% to 6.6% range. This growth rate is close to the same as the range assumed in the CareFirst standalone discounted cash flow analysis, but lower than the 10% estimated in the last year of the WellPoint projection. A summary of the resulting analysis is shown on the following page.

The analysis indicates that WellPoint's current valuation analysis could be in the $1.669-$1.872 billion range. This valuation assumes that WellPoint gives up 50% of its potential synergies in purchase price. However, if WellPoint, under this set of assumptions, could still achieve 50% of the remaining synergies, they would still have the potential to achieve $300 million in upside value.

Note that at WellPoint's 12.5% discount rate with 7.0x and 8.0x times EBITDA terminal value factors, the estimated value is $1.5 to $1.7 million (with relatively high implied perpetuity growth rates between 7.4% and 8.0%).

Updated WellPoint / Banc of America Analysis
"Water and River buys Congress"
7x – 8x EBITDA Terminal Value Range
(Dollars in millions)

	2003	2004	2005	2006	2007		
WP Unlevered Free Cash Flow	(64.2)	137.3	167.9	169.7	187.4		
(per BofA November 19, 2001 Report)							
Adjustments							
For CF Performance vs. Expectation	(10.0)	(11.5)	(13.2)	(15.2)	(17.5)		
50% of Operating Synergies, After-Tax	(4.7)	(9.3)	(15.5)	(21.7)	(21.7)		
50% of Management Syn, After-Tax	(8.8)	(15.3)	(19.3)	(25.3)	(30.3)		
NOL/AMT Credit - Original	(50.0)	(50.0)	(42.0)	-	-	**Terminal Value**	
NOL/AMT Credit - Updated	60.0	60.0	45.0	-	-	**EBITDA Multiple**	
Pension Fund Adjustment, After-Tax	(3.7)	(3.9)	(4.2)	(4.5)	(4.8)	**7.0x**	**8.0x**
Total Adjustments	(17.2)	(30.1)	(49.2)	(66.7)	(74.2)	2,224.1	2,541.8
Adjusted Unlevered Free Cash Flow	(81.4)	107.2	118.7	103.0	113.2		
Discount Rate @ 10.5%	0.950	0.860	0.778	0.704	0.637	0.637	0.637
Present Value @ 10.5%	(77.3)	92.2	92.4	72.5	72.1	1,417.4	1,619.8
					Total:	**$1,669.3**	**$1,871.8**

The valuation ranges indicated by each of the three primary valuation methodologies are as follows:

Public Market Valuation Methodology – after adjustment for excess capital
(dollars in millions)

	Low	High
CareFirst, Inc.	$1,574.750	$1,814.750
Group Hospitalization and Medical Services, Inc.	888.950	1,030.550
CareFirst of Maryland, Inc.	422.800	485.200
BlueCross BlueShield of Delaware	263.000	299.000

Comparable Sale Transaction Methodology – after adjustment for excess capital
(dollars in millions)

	Low	High
CareFirst, Inc.	$1,668.000	$1,818.000
Group Hospitalization and Medical Services, Inc.	935.185	1,023.685
CareFirst of Maryland, Inc.	429.590	468.590
BlueCross BlueShield of Delaware	303.225	325.725

Discounted Cash Flow Analysis
(dollars in millions)

	Base Case	Low	High
CareFirst, Inc.	$1,687.000	$1,548.000	$1,862.000
Group Hospitalization and Medical Services, Inc.	895.000	827.000	979.000
CareFirst of Maryland, Inc.	523.000	466.000	598.000
BlueCross BlueShield of Delaware	269.000	255.000	286.000

In arriving at a valuation conclusion, in addition to the factors described throughout this report, we have considered the following:

- Because the discounted cash flow analysis was produced by Cain Brothers, and only the assumptions were reviewed for reasonableness by CareFirst, we place less emphasis on this methodology that would otherwise be the case.
- The financial forecast (which was the basis for the discounted cash flow methodology) shows compounded annual growth of net income of approximately 12.5% over the 2003-2007 forecast period. CareFirst indications originally anticipated compounded annual growth of net income in the range of 15%, but projected 2003 performance indicates a lower growth rate to us.
- Given its large size and high market share, yet low level of profitability and regulatory environment, CFMI is the most difficult of the affiliates to value within a tight range.
- A high percentage of the value of BCBSD comes from its high level of excess capital and its NOLs/Tax Benefits (a much higher percentage than for GHMSI or CFMI).
- As noted in Section 2, the fair market value standard being used in this valuation is not necessarily the same as the highest possible purchase price that might be obtained in a full auction without consideration of "non-price" criteria. Should a higher purchase price than indicated here be offered, absent other information to the contrary, we would assume that the value of GHMSI would reflect the proportionate percentages of value indicated in this valuation report.

Subject to all of the foregoing, our concluded valuation ranges, as of January 23, 2003, for CareFirst, GHMSI, CFMI, and BCBSD are:
(dollars in millions)

	Low	High	Approximate % of Total
CareFirst, Inc.	$1,650.000	$1,750.000	
Group Hospitalization and Medical Services, Inc.	$915.000	$960.000	55.0%
CareFirst of Maryland, Inc.	$465.000	$500.000	28.5%
BlueCross BlueShield of Delaware	$270.000	$290.000	16.5%

Historical Financial Information for CareFirst: Consolidated and by Jurisdiction

Premium and Equivalents Basis
(Dollars in Thousands)

For the Year Ended December 31, 1999

	CFMI	% of Total		GHMSI	% of Total		BCBSD	% of Total		Consolidated
Revenue	$2,408,648	54.2%		$1,633,530	36.8%		$400,276	9.0%		$4,442,454
Incurred Care	2,140,117			1,461,110			348,397			3,949,624
Contribution Margin	268,531			172,420			51,879			492,830
Operating Expenses	244,850			126,314			54,947			426,049
Underwriting Gain	23,681	35.5%		46,106	69.1%		(3,068)	(4.6%)		66,781
Interest/Other Income	32,463	55.2%		18,591	31.6%		7,793	13.2%		58,785
Income before Taxes	56,144	44.7%		64,697	51.5%		4,725	3.8%		125,566
Total Taxes	(6,591)			(4,433)			(1,057)			(12,081)
Net Income from Continuing Operations	49,553	43.7%		60,264	53.1%		3,668	3.2%		113,485
Discontinued Operations	(6,762)			0			(2,746)			(9,508)
Development Cost Write-offs	(22,100)			0			0			(22,100)
Y2K Expenses	(6,320)			(5,738)			0			(12,058)
Net Income	$14,371	20.6%		$54,526	78.1%		$922	1.3%		$69,819
Depreciation & Amortization	21,229			7,136			2,112			30,477
EBIT	56,144			64,697			4,725			125,566
EBITDA	77,373			71,833			6,837			156,043
Medical Loss Ratio	88.9%			89.4%			87.0%			88.9%
Operating Expense Ratio	10.2%			7.7%			13.7%			9.6%

*Consolidated total does not equal the three jurisdictions totals added together due to rounding and other minor CareFirst, Inc. activity.

Premium and Equivalents Basis
(Dollars in Thousands)

For the Year Ended December 31, 2000

	CFMI	% of Total		GHMSI	% of Total		BCBSD	% of Total		Consolidated
Revenue	$2,582,323	51.8%		$1,949,269	39.1%		$453,064	9.1%		$4,984,656
Incurred Care	2,331,485			1,742,098			400,368			4,473,951
Contribution Margin	250,838			207,171			52,696			510,705
Operating Expenses	260,378			140,305			54,622			455,273
Underwriting Gain	(9,540)	(17.2%)		66,866	120.7%		(1,926)	(3.5%)		55,432
Interest/Other Income	31,226	49.9%		23,166	37.0%		8,230	13.1%		62,590
Income before Taxes	21,686	18.4%		90,032	76.3%		6,304	5.3%		118,022
Total Taxes	(3,244)			(17,969)			1,236			(19,977)
Net Income from Continuing Operations	18,442	18.8%		72,063	73.5%		7,540	7.7%		98,045
Discontinued Operations	(18,683)			0			(3,624)			(22,307)
Affiliation Costs	(334)			0			(11,600)			(11,934)
Development Cost Write-offs	0			0			0			0
Y2K Expenses	0			0			0			0
Net Income	($575)	(0.9%)		$72,063	112.9%		($7,684)	(12.0%)		$63,804
Depreciation & Amortization	25,156			10,280			2,143			37,579
EBIT	21,686			90,032			6,304			118,022
EBITDA	46,842			100,312			8,447			155,601
Medical Loss Ratio	90.3%			89.4%			88.4%			89.8%
Operating Expense Ratio	10.1%			7.2%			12.1%			9.1%

* Consolidated total does not equal the three jurisdictions totals added together due to rounding and other minor CareFirst, Inc. activity.

Premium and Equivalents Basis
(Dollars in thousands)

For the Year Ended December 31, 2001

	CFMI	% of Total	GHMSI	% of Total	BCBSD	% of Total	Consolidated
Revenue	$3,014,339	50.6%	$2,367,494	39.8%	$572,938	9.6%	$5,954,771
Incurred Care	2,735,152		2,135,034		501,102		5,371,288
Contribution Margin	279,187		232,460		71,836		583,483
Operating Expenses	302,359		185,729		59,603		547,648
Underwriting Gain	(23,172)	(64.7%)	46,731	130.6%	12,233	34.2%	35,835
Interest/Other Income	32,439	42.1%	35,426	46.0%	9,134	11.9%	76,956
Income before Taxes	9,267	8.2%	82,157	72.8%	21,367	18.9%	112,791
Total Taxes	(112)		(15,845)		(4,426)		(20,383)
Net Income from Continuing Operations	9,155	9.9%	66,312	71.8%	16,941	18.3%	92,408
Discontinued Operations	7,448		0		(1,160)		6,288
Affiliation Costs	0		0		0		0
Development Cost Write-offs	0		0		0		0
Y2K Expenses	0		0		0		0
Net Income	$16,603	16.8%	$66,312	67.2%	$15,781	16.0%	$98,696
Depreciation & Amortization	27,276		10,052		1,873		39,201
EBIT	9,267		82,157		21,367		112,791
EBITDA	36,543		92,209		23,240		151,992
Medical Loss Ratio	90.7%		90.2%		87.5%		90.2%
Operating Expense Ratio	10.0%		7.8%		10.4%		9.2%

* Consolidated total does not equal the three jurisdictions totals added together due to rounding and other minor CareFirst, Inc. activity.

Premium and Equivalents Basis
(Dollars in thousands)

For the Nine Month Period Ending September 30, 2002

	CFMI			GHMSI			BCBSD			Consolidated	
	9 Month Actual	% of Total	Full Year 2002 Forecast	9 Month Actual	% of Total	Full Year 2002 Forecast	9 Month Actual	% of Total	Full Year 2002 Forecast	9 Month Actual	Full Year 2002 Forecast
Revenue	$2,298,368	46.0%	$3,119,828	$2,180,613	43.6%	$2,888,277	$517,219	10.4%	$697,077	$4,996,200	$6,705,182
Incurred Care	2,095,165		2,832,233	1,974,007		2,618,860	462,090		622,538	4,531,262	6,073,631
Contribution Margin	203,203		287,594	206,606		269,418	55,129		74,539	464,938	631,551
Operating Expenses	208,400		285,732	165,473		217,327	47,389		63,438	421,262	566,497
Underwriting Gain	(5,197)	(11.9%)	1,862	41,133	94.2%	52,091	7,740	17.7%	11,101	43,676	65,054
Interest/Other Income	20,285	40.7%	27,433	23,708	47.5%	30,643	5,907	11.8%	7,660	49,900	65,736
Income before Taxes	15,088	16.1%	29,295	64,841	69.3%	82,734	13,647	14.6%	18,761	93,576	130,790
Total Taxes	(4,549)		(7,578)	(9,602)		(13,358)	(3,030)		(4,053)	(17,181)	(24,989)
Net Income from Continuing Operations	10,539	13.8%	21,717	55,239	72.3%	69,376	10,617	13.9%	14,708	76,395	105,801
Business Combination Costs	(2,433)		(4,000)	(1,671)		(3,000)	(178)		(1,000)	(4,282)	(8,000)
Discontinued Operations	4,004		4,000	0		0	0		0	4,004	4,000
Intangible Asset Impairment	0		(6,657)	0		(3,343)	0		0	0	(10,000)
FAS-115	0		(10,500)	0		(9,500)	0		(5,000)	0	(25,000)
Net Income	$12,110	15.9%	$4,564	$53,568	70.4%	$53,533	$10,439	13.7%	$8,708	$76,117	$66,805
Depreciation & Amortization[(1)]	17,128		22,837	12,223		16,297	3,702		4,936	33,053	44,070
EBIT	15,088		29,295	64,841		82,734	13,647		18,761	93,576	130,790
EBITDA	32,216		52,132	77,064		99,031	17,349		23,697	126,629	174,860
Medical Loss Ratio	91.2%		90.8%	90.5%		90.7%	89.3%		89.3%	90.7%	90.6%
Operating Expense Ratio	9.1%		9.2%	7.6%		7.5%	9.2%		9.1%	8.4%	8.4%

(1) D&A based upon 3/4 of 2002 forecast for 9 month actual.
(2) CareFirst BlueChoice allocated 60% to CFMI and 40% to GHMSI for illustrative purposes only.
(3) CFBC FAS 115 cost of $5,000 allocated 60% to CFMI and 40% to GHMSI.
* Consolidated total does not equal the three jurisdictions totals added together due to rounding and other minor CareFirst, Inc. activity.

Premium and Equivalents Basis
(Dollars in thousands)

For the Last 12 Months Ending September 30, 2002

	CFMI	% of Total		GHMSI	% of Total		BCBSD	% of Total		Consolidated
Revenue	$3,037,898	46.7%		$2,792,847	42.9%		$674,219	10.4%		$6,504,964
Incurred Care	2,763,045			2,531,698			597,571			5,892,314
Contribution Margin	274,853			261,149			76,648			612,650
Operating Expenses	287,562			221,175			62,449			571,144
Underwriting Gain	(12,709)	(30.7%)		39,974	96.4%		14,199	34.2%		41,506
Interest/Other Income	28,356	38.4%		36,607	49.6%		8,822	12.0%		73,741
Income before Taxes	15,647	13.6%		76,581	66.4%		23,021	20.0%		115,247
Total Taxes	(2,941)			(11,102)			(5,057)			(19,100)
Net Income from Continuing Operations	12,706	13.2%		65,479	68.1%		17,964	18.7%		96,147
Business Combination Costs	(2,433)			(1,671)			(178)			(4,282)
Discontinued Operations	11,452			0			(1,160)			10,292
Net Income	$21,725	21.3%		$63,808	62.5%		$16,626	16.3%		$102,157
Depreciation & Amortization(1)	23,501			15,182			4,170			42,854
EBIT	15,647			76,581			23,021			115,247
EBITDA	39,148			91,763			27,191			158,101
Medical Loss Ratio	91.0%			90.6%			88.6%			90.6%
Operating Expense Ratio	9.5%			7.9%			9.3%			8.8%

* Consolidated total does not equal the three jurisdiction totals added together due to rounding and other minor CareFirst, Inc. activity.

(1) Depreciation and amortization estimated by CareFirst; with CFBC depreciation and amortization allocated 60% to CFMI and 40% to GHMSI.

Weighted Average Cost of Capital

The purpose of this spreadsheet is to derive the Weighted Average Cost of Capital ("WACC") to be used in the Discounted Cash Flow Analysis for the valuation.

WACC = (K(d)*(1-t)*D/TC)+(K(e)*E/TC)

where: K(d) = 7.00% = the Cost of Debt for CareFirst. (See Note 1)

t = 38.40% = the estimated Tax Rate.

4.31% = After-tax debt rate

D/TC = 26.72% = the Debt/Total Capitalization ratio. (See Note 2)

K(e) = 12.67% = the Cost of Equity = R(f)+(B*(R(m))+R(s)+R(a).

where: R(f) = 5.08% = the Risk Free Rate, determined to be the yield on a 20-year Treasury Bond (per Bloomberg, 01/21/03).

B = 0.72 = the relevered Beta Coefficient, a measure of volatility of health maintenance organizations relative to the broader stock market in general divided by the equity to capitalization ratio of the target company. (see Note 3)

R(m) = 7.40% = the Equity Risk Premium of 7.40% (which is the amount required by investors above the Risk Free Rate to compensate for additional risk being taken by investing in equity securities in general) (See Note 4).

R(s) = 1.78% = a mid cap premium of 1.78% to account for smaller size (See Note 4).

R(a) = 0.50% = additional specific company risk premium of 0.50%

E/TC = 73.28% = the Equity/Total Capitalization ratio. (See Note 2)

Cost of Capital:	Cost	Weight	Weighted Cost
Cost of Equity	12.67%	73.3%	9.29%
Cost of Debt	4.31%	26.7%	1.15%
		WACC:	**10.44%**

1 - Assumed to be CareFirst's cost of debt.
2 - Debt to Capitalization is the average debt to capitalization for selected publicly traded HMO comparable database.
3 - The health maintenance organization Beta source is Bloomberg and is based on Cain Brothers calculations of the comparable publicly traded HMO companies.
4 - The Equity Risk Premium of 7.40% and the Mid Cap Premium of 1.78% were derived from the Valuation Edition 2002 Yearbook (Ibbotson Associates).

CareFirst Forecast Assumptions
"Standalone" Case

Overview

- Detailed forecasts of income statements (prepared on a premium and equivalents basis), balance sheets and cash flow statements were prepared for each entity (GHMSI, CFMI, BCBSD and CFBC) and then consolidated. The 2003 year was based off of the CareFirst 2003 Plan, and the 2004 through 2007 years were based on the assumptions outlined below.
- CareFirst management reviewed our major forecast assumptions for reasonableness; however, CareFirst management has not conducted a detailed review of the assumptions, the financial model, nor the resulting projections, and neither they nor Cain Brothers are providing an opinion on their accuracy or achievability.
- The underlying premise of these projections was that CareFirst would continue to be operated as a standalone entity, with non-profit and Blue Cross status.

Income Statement Assumptions (2004-2007)

- By entity and product (Indemnity Risk, FEP and Indemnity Non-Risk for GHMSI, CFMI, and BCBSD, and Commercial HMO for CFBC), projections of enrollment growth, premium increases, and medical loss ratios were forecast for each year.
- In general, percentage increases were regressed to a long-term mean. Enrollment increases were moderated to a 1% increase and premium rates from 2004 to 2007 were increased 10%, 8.5%, 7% and 6%, respectively. Medical Loss Ratios (the ratio of incurred care to premiums, or "MLRs") were generally held stable.
- For Indemnity Risk, the 2004 MLR was modified in GHMSI and CFMI for the termination of the open enrollment product in 2003. In CFMI only, a decreasing subsidy to certain provider groups was also incorporated into the forecast.
- Incurred care expense is estimated by multiplying enrollment times assumed premiums times the MLR, by entity, by product.
- Broker fees were estimated by applying the 2003 Plan premium percentage by entity and product to the 2004 to 2007 premium forecasts.
- Applicable premium taxes were held stable except the MHIP component was increased for CFMI and GHMSI in 2004 and thereafter to reflect a full year of the 2% tax rate.
- Administrative costs per member per month increases were generally assumed to increase with premium increases, except that pension costs, rent, depreciation and amortization were forecast separately.
- In Maryland, payment of a premium tax equivalent starting April 1, 2003 and the end of the SACC discount starting July 1, 2003 (supposed to be retroactive to April 1st) are built into the 2003 Plan. These incremental costs are offset by: (1) the end of open enrollment program losses, (2) the end of the senior prescription drug program losses, and (3) the ability of CareFirst to pass along higher costs to risk and non-risk accounts equal to the loss of the SAAC discount. CareFirst estimates that for 2003, the net financial impact of these items will be cost neutral.
- Pension costs were forecast separately, by entity, and are in total are expected to increase from $12.2 million in 2002 to $28 million in 2007.
- Rental costs were also forecast separately by entity, and in total are expected to increase from $29.4 million in 2002 to $46.7 million in 2007.
- Depreciation and amortization expense was forecast to increase approximately $5 million annually and was pro-rated based on 2003 Plan estimates.
- Investment/other income was based on the 2003 Plan, modified for our assumptions regarding the dividending of excess reserves. For 2004 to 2007, investment income was based on forecasts of cash, short-term and long term investment balances, with an assumed earnings rate of 1.5% on cash and short-term investments in 2004, growing to 3% by 2007, and an assumed earnings rate of 5% on long-term investments from 2004 to 2007.

- Business combination/other included $10 million in business combination costs in 2003 (assumed to be fully incurred in this forecast).
- A baseline effective combined federal/state tax rate of 20.6% was used for all entities except CFBC, based on a tax model which estimated 833 b deductions, NOLs and AMT carryforwards by entity, as applicable. GHMSI, CFMI, and BCBSD are forecast to continue to be eligible for 833 b deductions, but subject to state taxes on non-risk business. CFBC is forecast to use a portion of GHMSI's NOLs as well as some AMT credits. CFMI's taxes were adjusted for consolidation of the entity that subsidizes the medical groups, which has a higher tax rate, and thus the fully effective tax rate for CFMI ranged from 16.1% in 2003 to 19.9% in 2007. CFBC is expected to pay state taxes on all business resulting in a combined federal/state effective tax rate of 26.5%.

Balance Sheet Assumptions (2003-2007)

- Year-end 2002 ("beginning") balance sheets for each entity were based on unaudited balance sheets provided by management.
- Each entity is shown on an independent basis, with the CFMI 60% and GHMSI 40% interest in CFBC not reflected on their balance sheets (removed from long-term investments and reserves).
- In general, year-end 2003 to 2007 balance sheets for each entity were forecast based on income and depreciation estimates from the income statement and other cash flow assumptions as listed below.
- Individual balance sheet working capital items were forecast based on 2002 historical balances increased for growth in the business.
- Excess cash was assumed to be distributed as dividends. The initial excess amount was based on information on statutory reserves and 100% of risk based capital estimates for 2002 provided by management.
- Increases in statutory reserves were based on increases in incurred care expense for all risk businesses (including FEP) times an entity-specific 12% to 18% factor, plus adjustments for changes in working capital. These estimates approximate the required level of reserves necessary to meet a 500% RBC level, by entity. The percentages by entity were based on the 2002 information provided by management.

Cash Flow Assumptions (2004-2007)

- Cash flow assumptions included changes in working capital line items, forecast net income and depreciation expense, and capital expenditures.
- Capital expenditures were forecast to exceed depreciation expense by $20 million/year, increasing to $92.6 million by 2007, and were allocated to each entity based on their relative depreciation expense.

Discounted Cash Flow Analysis

- Free cash flow was derived for each entity, based on net income (debt-free), plus depreciation, less capital expenditures, less required increases in statutory reserves (net of working capital changes), adding back investment income on retained statutory reserves. Beginning cash in excess of the 500% risk based capital level was assumed to be divedended in mid-year 2003.
- Cash flow was discounted to a present value based on a 10.5% discount rate applied to the mid-points of each forecast year. The terminal value was based on assumed perpetuity growth factors (5.5% for GHMSI, 7% for CFMI, 6.25% for CFBC, and 5% for BCBSD) from 2007 cash flows, combined with the assumed discount rate. Differences in perpetuity growth factors were based on differences in cash flow growth over the forecast period, regressed to a long-term mean. Overall, the terminal value equals approximately 7.4 times 2007 EBITDA and 12.6 times 2007 Net Income at a 10.5% discount rate.
- In determining value by jurisdiction, 40% of the value of CFBC is allocated to GHMSI, and 60% of the value is allocated to CFMI, to account for their ownership interest in the HMO.

- The discount rates were based on calculated weighted average costs of capital ("WACCs") for CareFirst, determined by analyzing Ibbotson Associates data, 20 year U.S. Treasury rates, and publicly traded HMO financial data. A comparison with WellPoint/Bank of America's discount rates and WACCs was completed, including updating for current financial market conditions. 10.5% was the midpoint of the range of calculated WACCs.

CareFirst, Inc. - Consolidated

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
Gross revenue	7,896,200	8,828,169	9,704,200	10,495,371	11,236,345
Broker fees	164,900	184,181	202,110	218,427	233,848
Net revenue	7,731,300	8,643,988	9,502,090	10,276,944	11,002,496
Incurred care	7,008,572	7,826,656	8,599,920	9,297,445	9,950,209
Contribution margin	722,728	817,332	902,170	979,499	1,052,287
MHIP tax	18,000	26,328	28,710	31,027	33,217
Total contribution margin	704,728	791,004	873,460	948,473	1,019,070
Operating expense:					
Admin	518,572	582,595	640,252	692,514	741,405
Pension	19,000	20,144	23,593	26,379	28,084
Rent	38,000	40,471	42,495	44,620	46,851
Depreciation	52,629	57,629	62,629	67,629	72,629
Amortization	--	--	--	--	--
Other	--	--	--	--	--
Add back D&A	(52,629)	(57,629)	(62,629)	(67,629)	(72,629)
Total oper exp (excl D&A)	575,572	643,210	706,340	763,513	816,340
Total u/w gain (loss)	76,527	90,165	104,491	117,331	130,101
Add back depreciation & amortization	52,629	57,629	62,629	67,629	72,629
EBITDA	129,156	147,794	167,120	184,960	202,730
Less depreciation & amortization	52,629	57,629	62,629	67,629	72,629
EBIT	76,527	90,165	104,491	117,331	130,101
Less interest expense	--	--	--	--	--
Investment/Other income	60,405	65,774	74,322	82,237	89,654
Bus comb/Other	(10,000)	--	--	--	--
Pretax income	126,931	155,939	178,813	199,568	219,755
Less income tax	27,497	33,501	38,609	43,267	47,805
Net income	$99,435	$122,438	$140,204	$156,300	$171,950

Group Hospitalization and Medical Services, Inc.

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
Gross revenue	3,005,400	3,380,329	3,727,427	4,028,230	4,312,623
Broker fees	53,600	60,729	67,209	72,632	77,760
Net revenue	2,951,800	3,319,600	3,660,218	3,955,598	4,234,863
Incurred care	2,714,472	3,053,033	3,365,806	3,637,427	3,894,229
Contribution margin	237,328	266,567	294,412	318,171	340,634
MHIP tax	4,200	6,329	7,004	7,569	8,104
Total contribution margin	233,128	260,238	287,408	310,601	332,530
Operating expense:					
Admin	160,212	179,920	198,480	214,497	229,641
Pension	5,700	6,841	8,001	8,746	9,331
Rent	11,900	12,674	13,308	13,973	14,672
Depreciation	16,262	17,807	19,352	20,897	22,442
Amortization	--	--	--	--	--
Other	--	--	--	--	--
Add back D&A	(16,262)	(17,807)	(19,352)	(20,897)	(22,442)
Total oper exp (excl D&A)	177,812	199,435	219,789	237,216	253,644
Total u/w gain (loss)	39,054	42,995	48,266	52,488	56,444
Add back depreciation & amortization	16,262	17,807	19,352	20,897	22,442
EBITDA	55,317	60,803	67,619	73,385	78,886
Less depreciation & amortization	16,262	17,807	19,352	20,897	22,442
EBIT	39,054	42,995	48,266	52,488	56,444
Less interest expense	--	--	--	--	--
Investment/Other income	21,388	26,983	30,310	33,287	36,129
Bus comb/Other	(4,400)	--	--	--	--
Pretax income	56,042	69,978	78,576	85,775	92,573
Less income tax	11,786	14,415	16,187	17,670	19,070
Net income	$44,256	$55,563	$62,389	$68,105	$73,503

CareFirst of Maryland, Inc.

	Projected for the Years Ending December 31,				
	2003	2004	2005	2006	2007
	(Dollar amounts in thousands)				
Gross revenue	3,149,600	3,479,269	3,802,050	4,108,875	4,398,962
Broker fees	55,100	60,297	65,582	70,874	75,878
Net revenue	3,094,500	3,418,973	3,736,468	4,038,001	4,323,084
Incurred care	2,811,700	3,095,646	3,379,431	3,648,182	3,902,109
Contribution margin	282,800	323,327	357,037	389,818	420,975
MHIP tax	13,800	19,999	21,706	23,457	25,113
Total contribution margin	269,000	303,328	335,332	366,361	395,862
Operating expense:					
Admin	221,455	246,728	269,644	291,405	311,978
Pension	7,800	7,639	8,920	9,855	10,500
Rent	16,300	17,360	18,228	19,140	20,096
Depreciation	22,473	24,608	26,743	28,878	31,013
Amortization	--	--	--	--	--
Other	--	--	--	--	--
Add back D&A	(22,473)	(24,608)	(26,743)	(28,878)	(31,013)
Total oper exp (excl D&A)	245,555	271,727	296,792	320,400	342,574
Total u/w gain (loss)	973	6,993	11,797	17,084	22,275
Add back depreciation & amortization	22,473	24,608	26,743	28,878	31,013
EBITDA	23,445	31,601	38,539	45,962	53,288
Less depreciation & amortization	22,473	24,608	26,743	28,878	31,013
EBIT	973	6,993	11,797	17,084	22,275
Less interest expense	--	--	--	--	--
Investment/Other income	23,984	23,447	26,233	28,915	31,467
Bus comb/Other	(5,000)	--	--	--	--
Pretax income	19,957	30,440	38,029	45,999	53,742
Less income tax	3,226	5,386	7,126	8,945	10,717
Net income	$16,731	$25,054	$30,903	$37,054	$43,025

CareFirst Blue Choice HMO

	Projected for the Years Ending December 31,				
	2003	2004	2005	2006	2007
	(Dollar amounts in thousands)				
Gross revenue	869,100	975,130	1,068,596	1,154,832	1,236,363
Broker fees	47,700	53,519	58,649	63,382	67,857
Net revenue	821,400	921,611	1,009,947	1,091,450	1,168,506
Incurred care	701,000	786,522	861,910	931,466	997,228
Contribution margin	120,400	135,089	148,037	159,984	171,278
MHIP tax	--	--	--	--	--
Total contribution margin	120,400	135,089	148,037	159,984	171,278
Operating expense:					
Admin	79,100	88,751	97,257	105,106	112,527
Pension	2,800	3,115	4,042	4,758	5,220
Rent	5,800	6,177	6,486	6,810	7,151
Depreciation	8,000	8,760	9,520	10,280	11,040
Amortization	--	--	--	--	--
Other	--	--	--	--	--
Add back D&A	(8,000)	(8,760)	(9,520)	(10,280)	(11,040)
Total oper exp (excl D&A)	87,700	98,043	107,785	116,674	124,898
Total u/w gain (loss)	24,700	28,287	30,732	33,030	35,341
Add back depreciation & amortization	8,000	8,760	9,520	10,280	11,040
EBITDA	32,700	37,046	40,252	43,310	46,381
Less depreciation & amortization	8,000	8,760	9,520	10,280	11,040
EBIT	24,700	28,287	30,732	33,030	35,341
Less interest expense	--	--	--	--	--
Investment/Other income	9,357	10,062	11,335	12,517	13,640
Bus comb/Other	--	--	--	--	--
Pretax income	34,057	38,349	42,067	45,547	48,981
Less income tax	9,025	10,162	11,148	12,070	12,980
Net income	$25,032	$28,186	$30,919	$33,477	$36,001

BlueCross and BlueShield of Delaware, Inc

	Projected for the Years Ending December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
	(Dollar amounts in thousands)				
Gross revenue	872,100	993,441	1,106,127	1,203,434	1,288,396
Broker fees	8,500	9,636	10,670	11,538	12,353
Net revenue	863,600	983,805	1,095,457	1,191,895	1,276,043
Incurred care	781,400	891,455	992,773	1,080,369	1,156,643
Contribution margin	82,200	92,350	102,684	111,526	119,400
MHIP ↑Total MHIP tax	--	--	--	--	--
Total contribution margin	82,200	92,350	102,684	111,526	119,400
Operating expense:					
Admin	57,806	67,196	74,870	81,506	87,260
Pension	2,700	2,549	2,630	3,020	3,033
Rent	4,000	4,260	4,473	4,697	4,932
Depreciation	5,894	6,454	7,014	7,574	8,134
Amortization	--	--	--	--	--
Other	--	--	--	--	--
Add back D&A	(5,894)	(6,454)	(7,014)	(7,574)	(8,134)
Total oper exp (excl D&A)	64,506	74,005	81,973	89,223	95,225
Total u/w gain (loss)	11,800	11,890	13,696	14,729	16,041
Add back depreciation & amortization	5,894	6,454	7,014	7,574	8,134
EBITDA	17,694	18,345	20,710	22,304	24,175
Less depreciation & amortization	5,894	6,454	7,014	7,574	8,134
EBIT	11,800	11,890	13,696	14,729	16,041
Less interest expense	--	--	--	--	--
Investment/Other income	5,676	5,282	6,445	7,517	8,419
Bus comb/Other	(600)	--	--	--	--
Pretax income	16,875	17,172	20,141	22,246	24,460
Less income tax	3,459	3,538	4,149	4,583	5,039
Net income	$13,416	$13,635	$15,992	$17,664	$19,421